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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Mark One)

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

OR

¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 000-31029-40

MICROTUNE, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Common Stock, $0.001 par value per share

(Title of Class)

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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MICROTUNE, INC.

FORM 10-K/A

YEAR ENDED DECEMBER 31, 2005

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

EXPLANATORY NOTE

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

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

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

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

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

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

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

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

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

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

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PART I

ITEM 1. BUSINESS

Website Access to Reports and Other Information

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

Overview

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

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

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

Cable

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

Digital TV

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

Automotive Electronics

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

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

Business Strategy

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

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

Organization

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

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

Markets

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

Cable

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

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

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

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

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

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

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

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

Digital TV

Terrestrial TV

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

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

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

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

feature for some television sets.

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

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

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

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

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

Mobile TV

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

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

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

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

PC/TV Multimedia Entertainment

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

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

Automotive Electronics

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

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

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

Products

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

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

Integrated Circuit Products

We offer a product portfolio that includes:

MicroTuner Single-Chip Broadband Tuners

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

Silicon Amplifiers

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

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VideoCaster Chipset

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

Subsystem-Level RF Solutions

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

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

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

Technology, Intellectual Property, Research and Development

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

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

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

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

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

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Sales and Marketing

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

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

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

Backlog

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

Customers

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

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

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

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

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

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

Manufacturing

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

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

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

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

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

Competition

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

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

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

Quality and reliability;

Application engineering support; and

Adaptability and flexibility to meet customers and target markets requirements.

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Cable

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

Digital TV

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

Automotive Electronics

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

Environmental Matters

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

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

Employees

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

ITEM 1A. RISK FACTORS

Except as described below, the risk factors included in this amended Annual Report on Form 10-K/A for the year ended December 31, 2005 have not been updated for information or events occurring after March 3, 2006, the date of filing of our original Annual Report on Form 10-K for the year ended December 31, 2005.

The following risk factor has been added to this amended Annual Report on Form 10-K/A solely to reflect the impact of the restatement described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Restatement of Consolidated Financial Statements, Audit Committee and Company Findings, Remedial Measures and Related Proceedings, Item 9A, Controls and Procedures and Note 2, Restatement of Consolidated Financial Statements, to the Notes to Consolidated Financial Statements included in this Form 10-K/A:

The matters relating to the investigation by the Audit Committee of our Board of Directors into our stock option granting practices and the restatement of our consolidated financial statements may result in future litigation or regulatory inquiries which could harm our financial results.

On July 27, 2006, we announced that the Audit Committee of our Board of Directors, with the assistance of independent legal counsel, was conducting a review of our stock option practices covering the time from our initial public offering in August 2000 through June 2006.

On November 1, 2006, the Audit Committee announced that it had concluded that the actual accounting measurement dates for certain past stock option grants differed from the measurement dates previously used in accounting for such grants. Because, in certain cases, the prices on the previously used measurement dates were lower than the prices on the actual accounting measurement dates, we determined that we should have recognized material amounts of stock-based compensation expense in connection with these transactions. Therefore, we concluded that our previously filed unaudited interim and audited annual consolidated financial statements for the years ended December 31, 2005, 2004, 2003,

2002 and 2001, as well as the unaudited interim financial statements for the first quarter ended March 31, 2006, should no longer be relied upon because these financial statements contained misstatements and would need to be restated. We disclosed this conclusion in our Current Report on Form 8-K, filed with the SEC on November 1, 2006. In January 2007, we determined to restate our selected consolidated financial data as of and for the years ended December 31, 2000 and 1999.

This review of our historical stock option granting practices has required us to incur substantial expenses for legal, accounting, tax and other professional services, has diverted our management s attention from our business, and could in the future adversely affect our business, financial condition, results of operations and cash flows.

Our stock option granting practices and the restatement of our prior financial statements have exposed us to greater risks associated with litigation and regulatory proceedings. We cannot assure you that any future litigation or regulatory action will result in the same conclusions reached by the Audit Committee. The conduct and resolution of these matters will be time consuming, expensive and distracting from the conduct of our business.

We voluntarily contacted the SEC regarding the Audit Committee s review and our representatives expect to meet with the SEC to discuss the findings of the Audit Committee s investigation in detail. We intend to cooperate with the SEC in any investigation into these matters.

While we believe that we have made appropriate judgments in determining the correct measurement dates for stock option grants, the SEC may disagree with the manner in which we have accounted for and reported, or not reported, the financial impact of past stock option grant measurement date errors, and there is a risk that any SEC inquiry could lead to circumstances in which we may have to further restate our prior financial statements, amend prior SEC filings, or otherwise take other actions not currently contemplated by us. Any such circumstance could also lead to future delays in filing our subsequent SEC reports and delisting of our common stock from The NASDAQ Global Market. Furthermore, if we are subject to adverse findings in any of these matters, we could be required to pay damages or penalties or have other remedies imposed upon us which could harm our business, financial condition, results of operations and cash flows. Please see Note 2, Restatement of Consolidated Financial Statements to the Notes to Consolidated Financial Statements for further information.

Our success depends on the growth of the cable, digital TV and automotive markets generally and the demand for RF products within these markets specifically.

We derive a substantial portion of our revenue from sales of RF products into markets related to cable, digital TV and automotive applications or devices. These markets are characterized by:

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

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The cable, digital TV and automotive markets may not grow in the future as anticipated, if at all, or a significant market slowdown may occur. Further, demand for applications or devices that include our products, in particular, cable set-top boxes; high-speed cable data modems; high-speed cable voice modems enabling cable based digital phone services; car audio, video and antenna amplifier systems; digital/analog TVs, including high-definition TVs; PC/TV multimedia products and mobile TVs may not grow at a rate sufficient for us to sustain profitability, or our customers market share may decline, even though demand in general is high, which would also adversely affect our financial results. In addition, since the mobile TV market segment is a new market, and its development is subject to many contingencies and unknowns, it may develop much slower than currently expected or it may not develop at all. Because of the intense competition in the cable, digital TV and automotive markets, the unproven technology of many products addressing these markets and the short product life cycles of many consumer applications or devices, it is difficult to predict the potential size and future growth rate of the markets for our RF products. In addition, the cable, digital TV and automotive markets are transitioning from analog to digital, as well as expanding to new services, such as interactive television, mobile TV and on-demand services. The future growth of our RF product markets is dependent upon market acceptance of our customers applications and devices, incorporating our RF technology, that address the cable, digital TV and automotive markets, and we cannot assure you that our customers products and consequently, our underlying RF technology, will be accepted by any of the end customers in these markets. If the demand for our RF products is not as great as we expect, if we are unable to produce competitive products to meet that demand or if we are otherwise unable to capitalize on market opportunities, we may not be able to generate revenue growth or profitability.

Market specific risks affecting the mobile TV market segment within the digital TV market could impair our ability to compete successfully in this new market segment.

The market for mobile TV is new and is characterized by various market-specific risks, any of which may adversely affect our ability to compete in this new market segment.

Examples of market-specific risks affecting the mobile TV market segment include:

- the risk that the mobile TV market segment may develop more slowly than expected or not develop at all;
- the risk that we will fail to achieve or continue to achieve design wins with major cell phone manufacturers;
- the risk that we will fail to effectively partner with strategic demodulator partners who are necessary to effectively market our products and secure design wins with major cell phone manufacturers or that even if we are initially successful in partnering with such strategic demodulator partners, that they will develop or market their own tuner, system in package (SIP) or system on chip (SOC) mobile TV solutions rather than continuing to market our joint solution;
- the risk that other companies with more focused engineering efforts will compete effectively against us;
- the risk that we may overallocate our engineering resources to the development of mobile TV products, only to fail to penetrate this market segment and consequently, harm other areas of our product development;
- the risk that even if we are successful initially, we may have difficulty sustaining our market position as the mobile TV market segment will likely be highly competitive with extreme pricing pressure and price erosion;
- the risk that solutions that integrate the tuner and demodulator on one chip (SOC) or in one package (SIP) will be more compelling to potential customers than our discrete silicon tuner solutions;

the risk that SIP or SOC solutions will be adopted as the preferred implementation by mobile phone manufacturers and we will fail to successfully partner with a demodulator manufacturer to support a SIP or SOC solution;

the risk that tuners fabricated in CMOS to enable or to aid integration with the CMOS demodulator in a SIP or SOC solution will be favored over our tuner solutions fabricated in SiGe; and

the risk that broadcasting formats such as MediaFLO that our products do not currently support will gain greater acceptance than DVB-H and possibly become the universally adopted standard in the mobile TV market segment.

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To the extent our efforts to penetrate the mobile TV market segment are adversely affected by any of these risks or are otherwise unsuccessful, we could experience a material adverse effect on our business prospects, financial condition and results of operations.

Market-specific risks affecting the television, digital converter box and television peripheral market segment of the digital TV market could impair our ability to compete successfully in that market.

The market for digital TV applications in televisions, digital converter boxes and television peripherals is characterized by various market-specific risks, any of which may adversely affect our ability to compete in that market.

Examples of market-specific risks affecting this market segment include:

- the risk that module tuners that offer the same or similar functionality as our silicon tuner solutions will continue to be used by OEMs and will be viewed as more attractive by our current and potential customers;
- the risk that module tuners that offer the same or similar functionality as our silicon tuner solutions will be sold at lower prices than our silicon tuner solutions;
- the risk that we will be unable to develop silicon tuners that meet the performance requirements of our customers;
- risks related to systems integration and other risks inherent in the highly complex design-in process of the products designed to address this market;
- the risk that module products implementing our silicon tuners will not be selected by potential end customers due to the economics of the entire module solution where other components are unattractively priced;
- the risk that our products will not have the feature set desired by our customers or will not be architecturally compatible with other components in the customers designs; and
- the risk that an influx of entrants into the digital TV market due to a faster than expected transition to all digital will accelerate average selling price erosion.

Our efforts to penetrate the digital TV market, in particular, will depend on our ability to overcome the challenges described above and upon eventual acceptance of our new digital TV products, such as the MT2131. To the extent our efforts are adversely affected by any of these risks or are otherwise unsuccessful, we could experience a material adverse effect on our business prospects, financial condition and results of operations.

Other solutions for the cable, digital TV and automotive markets compete with some of our solutions. If these solutions prove to be more reliable, faster, less expensive or more popular than our solutions, the demand for our RF products and our revenue may decrease.

Some of our target market segments, such as cable modem and cable telephony services, are competing with a variety of non-RF based broadband communications solutions, including digital subscriber line (DSL) technology and certain fiber to the home solutions. Many of these technologies compete effectively with cable modem and cable telephony services and do not require RF tuners like the ones that we sell. If any of these competing technologies are, or are perceived to be, more reliable, faster, less expensive, able to reach more customers or have other advantages over RF broadband technology, the demand for our RF products may decrease, which would cause our revenue to decrease accordingly. Also, some of the consumer devices that currently incorporate our RF products, e.g., TV s, may not use our tuners or other products

we sell in the future. Such changes in device features or functionality could adversely affect our financial results and business prospects.

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We operate in an intensely competitive business and many of our competitors have significantly greater resources and operating flexibility, which allow them to compete effectively against us in existing markets and may affect our ability to enter or effectively compete in new markets.

The markets in which we compete are intensely competitive and we cannot assure you that we will be able to compete successfully against current or new competitors. This competition has resulted and may continue to result in declining average selling prices for our RF products and a corresponding reduction in our ability to recover research and development and manufacturing costs. 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, digital TV and automotive markets. We compete primarily with Alps, Anadigics, Broadcom, DiBcom, Freescale, LG Innotek, Mitsumi, Panasonic, Philips Electronics, RF Magic, Samsung Electro-Mechanics, Sanshin, Siano, Texas Instruments, Thomson and Xceive. Average selling prices for products offered by competitor tuner module manufacturers continue to erode substantially, causing our silicon product offerings to be less attractive to potential customers and further limiting our design win opportunities, especially in the digital TV market.

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

- longer operating histories and established market positions in key markets;
- greater name recognition;
- access to larger customer bases;
- significantly greater financial, sales and marketing, manufacturing, distribution, management, technical and other resources;
- existing relationships with potential customers as a result of the sales of other components, which can be leveraged into sales of products competitive with our RF products;
- existing relationships with partners in joint ventures or investing activities, which can be leveraged into sales of products competitive with our RF products; and
- broader product and service offerings that may allow them to compete effectively by bundling their tuner products with their other products and services, by legal or illegal means.

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 which may harm our current market position and impact our ability to enter or compete effectively in new markets. If we do not compete successfully, we may lose market share in our existing markets, our gross margins may fail to increase or may decline, and we may experience other material adverse effects on our business, financial condition and results of operations.

Our success is highly dependent on our relationships with our strategic demodulator partners.

Our RF products are designed to be interoperable with various specific demodulator integrated circuit products that are designed and manufactured by other companies. Historically, we have relied on informal strategic relationships with various demodulator manufacturers to enable both parties to offer an interoperable tuner/demodulator solution to our mutual end customers. Although we work in concert with our third-party demodulator partners to complete highly functional reference designs, we have no control over our partners future product plans and

product roadmaps and could be effectively designed out of future customer applications by the refusal of a demodulator partner to continue to support us. Likewise, our ability to acquire new customers is highly dependent on the cooperation of third-party demodulator manufacturers. If such third-party manufacturers decide to partner with our competitors or to provide their own tuner solution, we would effectively be prevented from selling our products to potential new customers. This risk is especially present in the mobile TV market segment, where there are currently few demodulator partners and many tuner competitors. Furthermore, our dependence on these third-party demodulator manufacturers often limits the strategic direction of the company. If we were to design

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products that were competitive with any of such demodulator manufacturers, they may choose to stop working with us. Our current principal demodulator partners are Texas Instruments in the cable modem market, ATI Technologies in the ATSC market and ST Microelectronics in the DVB-C market. In the mobile TV market, our tuner is currently marketed with a DiBcom demodulator, however, DiBcom has recently announced its plans to offer a SIP solution, incorporating its own internally developed RF silicon tuner. Texas Instruments is currently offering its own single chip integrated tuner and demodulator, the Hollywood chip, which will compete directly with our mobile TV tuner products and our joint solutions offered with our demodulator partners.

If any of our current or prospective demodulator partners were to stop working with us in favor of other tuner manufacturers or in favor of deploying their own tuner products, we would be effectively designed out of current and potential customer s products and this could have a material adverse effect on our business, results of operations and our future prospects.

Industry participants may consolidate or establish financial or strategic relationships, adversely impacting our ability to compete in our markets.

Consolidation by industry participants, such as acquisitions of our customers, suppliers or partners by our competitors, or acquisitions of our competitors by our customers, suppliers or partners, could result in competitors with increased market share, larger customer bases, greater diversified product offerings and greater technological and marketing expertise, which would allow them to compete more effectively against us. Current and potential competitors may also gain such competitive advantages by establishing financial or strategic relationships with existing or potential customers, suppliers or other third-parties. These new competitors or alliances among competitors could emerge rapidly and acquire significant market share. In addition, some of our suppliers or partners offer or may offer products that compete with our RF products. Further, we rely upon some of our partners for certain joint reference design and marketing activities and some of our products are incorporated in some of our partners reference designs that are provided to potential customers. Depending on the participants, industry consolidation or the formation of strategic relationships could have a material adverse effect on our business and results of operations by reducing our ability to compete successfully in our current markets and the markets we are seeking to serve.

We expect our quarterly results of operations to fluctuate.

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

- the timing, cancellation and rescheduling of significant customer orders;
- the ability of our customers to procure the other necessary components for their end-products that utilize our products in order to conduct their operations;
- pricing concessions on volume sales to particular customers for established time frames and our ability to respond to general downward pressure on the average selling prices of our products;
- cyclical or seasonal slowdowns and general downturns in customer demand or related industry-wide increases in inventories;
- our ability to predict our customers demand for our products, manage production and inventory levels in response to product life cycles and other factors and minimize the effects of obsolete or excessive inventory;
- design wins and changes in our product and customer mix;

labor disputes at our subsystem module manufacturer s facility in the Philippines or at any of our other subcontractors, which may cause temporary slowdowns or shutdowns of operations;

problems with our products that result in significant returns;

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inadequate allocation of wafer, assembly or test capacity for our silicon products by our subcontractors and/or allocation of components used in our module products by our suppliers;

acts of terrorism or military action occurring anywhere in the world; and

acts of God or force majeure.

It is likely that our quarterly results of operations will be adversely affected by one or more of the factors listed above, or other factors. If our future results of operations fail to meet the expectations of stock market analysts or investors, the market price of our common stock may decline.

Because we depend on a few significant customers for a substantial portion of our revenue, the loss or change in demand of a key customer would seriously harm our business.

We have historically derived a substantial portion of our revenue from sales to a relatively small number of customers and we expect this trend to continue. The loss of any significant customer would significantly harm our revenue. Sales to our significant customers, including sales to their respective manufacturing subcontractors, as a percentage of net revenue were as follows:

	Year Ended December 31,		
	2005	2004	2003
Scientific-Atlanta	22%	16%	*
Asuspower (1)	18%	10%	*
DaimlerChrysler	*	*	15%
World Peace Industrial			13%
Ten largest customers	74%	63%	60%

* Less than 10% of net revenue

(1) Primarily for the benefit of ARRIS in 2005, and ARRIS and Terayon in 2004.

Further, several existing and potential customers have substantial internal technological capabilities and could develop products internally that compete with or replace our products. A decision by any of our significant customers to internally design and manufacture products that compete with our products could have a material adverse effect on our business and results of operations.

We believe that our future results of operations will continue to depend on the success of our largest customers, on our ability to sell existing and new products to these customers in significant quantities and on our ability to diversify our customer base. To attract new customers or retain existing customers, we may offer certain customers very attractive prices on our products which could impact our overall pricing strategy. In that event, our average selling prices and gross margins would decline. The loss of a key customer or a reduction in our sales to any key customer would harm our revenue and consequently our results of operations and financial condition.

We are subject to order and shipment uncertainties with respect to our RF products, and if we are unable to accurately predict customer demand for these products, we may incur excess or obsolete inventory, which would reduce our profit margin, or insufficient inventory, which would result in lost revenue opportunities and potentially in loss of market share and damaged customer relationships.

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 terms and conditions (which do not apply to some of our key customers) typically provide that our customers may cancel orders scheduled to ship outside 90 days. Further, our terms typically provide that customers may reschedule orders that are scheduled to ship outside 30 days, but customers typically are restricted to the number of days they can delay the ship date. However, we have permitted customers to cancel orders less than 90 days before the expected date of shipment and to re-

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schedule shipments less than 30 days before the expected date of shipment, with little or no penalty. We currently do not have the ability to accurately predict what or how many products our customers will need in the future. Anticipating demand is difficult because our customers face volatile pricing and unpredictable demand for their own products and are increasingly focused on cash preservation and tighter inventory management. However, we place orders with our suppliers based on forecasts of customer demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. Our forecasts are based on multiple assumptions, each of which may introduce error into our estimates. If we overestimate customer demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect to, or at all. As a result, we would hold excess or obsolete inventory, which would reduce our profit margins and adversely affect our business and results of operations. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would forego revenue opportunities and potentially lose market share and damage our customer relationships. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect our profit margins, increase product obsolescence and restrict our ability to fund our operations.

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

Historically, the average selling price of our products has decreased over their lives. In addition, as the markets for RF integrated circuit and module products mature, we believe that it is likely that the average unit prices of our RF products will decrease in response to competitive pricing pressures, increased sales discounts, new product introductions, competitive product bundling and a transition in our markets from higher priced module products to lower priced integrated circuits. To offset these decreases, we expect to primarily rely on achieving cost reductions for materials used in existing products and introducing new products that can either be sold at higher average selling prices or be manufactured with lower costs.

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

The sales cycle for our RF products is long, and we incur substantial non-recoverable expenses and devote significant resources to sales that may not be realized when anticipated, if at all.

Our customers, and sometimes their customers, typically conduct significant evaluation, testing, implementation and acceptance procedures before they purchase our RF products. These evaluation processes are frequently lengthy and may range from three months to one year or more. As a result, we expend significant financial and human resources to develop customer relationships before we realize any revenue from these relationships. In fact, we may never realize any revenue from these efforts. In many situations, our customers design their products to specifically incorporate our RF products, and our RF products must be designed to meet their stringent specifications. This process can be complex and may require significant engineering, sales, marketing and management effort on our part. This process may also require significant engineering and testing by our customers and, if our customers do not have sufficient capabilities to complete the process, they may become dissatisfied with our products, and our business and results of operations could be materially adversely affected.

We customize a substantial portion of our RF subsystem module products to address our customers specific RF 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 RF subsystem module products to address the unique needs of our 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 to cover our fixed costs. Because some of our customer-specific RF module products are developed for unique applications, we expect that some of our current and future customer-specific RF module products may never be produced in sufficient volume to cover our fixed costs. In addition, if our customers fail to purchase these customized RF module products from us, we risk having substantial unsaleable inventory, which could have a material adverse effect on our financial condition and results of operations.

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A product recall by a major customer could materially adversely affect our business, financial condition and results of operations.

We generally warrant our commercial products for a period of one year, and longer for automotive electronics products. If a customer experiences a problem with our products and subsequently returns our products to us in large quantities for rework, replacement, or refund, the cost to us could be significant and could have a material adverse effect on our business, financial condition and results of operations.

Some of our customers require us to sign line down clauses, liability clauses and/or intellectual property warranty and indemnification clauses.

We are currently subject to line down clauses in contracts with certain customers. Such clauses require us to pay financial penalties if our failure to supply products in a timely manner causes the customer to slow down or stop their production. Such penalties could be large and, if incurred, could have a material adverse effect on our financial condition and results of operations. We are also subject to product liability clauses and/or intellectual property warranty and indemnification clauses in some of our customer contracts, and where we do not have contracts, we are subject to such default provisions in the relevant jurisdiction s embodiment of the Uniform Commercial Code. Such clauses and warranties require us to pay financial penalties if we supply defective product, which results in financial damages to the customer, or to indemnify the customer for third-party actions based on the alleged infringement by our products of a third-party s intellectual property. Such penalties or obligations could be large and, if incurred, could have a material adverse effect on our financial condition and results of operations.

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

Net revenue from outside of North America was 66%, 58% and 66% for 2005, 2004 and 2003, respectively. We plan to increase our international sales activities by adding international sales personnel, sales representatives or distributors. 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 which could have a material adverse effect on our financial condition and results of operations.

A majority of our revenues have historically come from our international customers, and, as a result, our business may be harmed by political and economic conditions in foreign markets and the challenges associated with operating internationally.

Historically, revenues from international markets have represented the majority of our total revenues, We expect revenues from international markets to continue to represent the majority of our total revenues for the foreseeable future. International business activities involve certain risks, including:

- difficulties involved in the staffing and management of our geographically dispersed operations;
- longer sales cycles in certain countries, especially on initial entry into a new geographical market;
- greater difficulty in evaluating a customer s ability to pay, longer accounts receivable payment cycles and greater difficulty in the collection of past-due accounts;
- general economic conditions in each country;
- challenges associated with operating in diverse cultural and legal environments;
- seasonal reductions in business activity specific to certain markets;

loss of revenues, property and equipment from expropriation, nationalization, war, insurrection, terrorism and other political risks;

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foreign taxes and the overlap of different tax structures, including modifications to the United States tax code as a result of international trade regulations;

greater difficulty in safeguarding intellectual property;

foreign technical standards;

import and export licensing requirements, tariffs, and other trade and travel restrictions; and

existence or adoption of laws and regulations affecting the operation and taxation of our business and the general business climate for foreign companies.

We extend credit to our customers, sometimes in large amounts, but there is no guarantee every customer will be able to pay our invoices when they become due. At various times, our accounts receivable is concentrated in a few customers.

As part of our routine business, we extend credit to customers purchasing our products. At December 31, 2005, approximately 63% of our net accounts receivable were due from five of our customers. While our customers may have the ability to pay on the date of shipment or on the date credit is granted, their financial condition could change and there is no guarantee that customers will ever pay the invoices.

Because all of our customers do not have the same credit terms, our outstanding accounts receivable balance can become concentrated in a smaller number of customers than our overall net revenue. This concentration can subject us to a higher financial risk.

Our customers products are subject to governmental regulation.

Governmental regulation could place constraints on our customers and consequently reduce their demand for our RF products. The Federal Communications Commission, or FCC, has broad jurisdiction over several of our target markets in the United States Similar governmental agencies regulate our target markets in other countries. Although most of 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 RF products will decrease if equipment incorporating our products fails to comply with FCC emissions specifications.

Our dependence on a single manufacturing facility and a single subcontractor for almost all of our subsystem module solutions could jeopardize our operations.

In June 2005, we completed the transition of our outsourced subsystem module solutions manufacturing operations from TFS to Ionics EMS, Inc. The majority of our subsystem module solutions manufacturing operations are now subcontracted to Ionics. Such operations are conducted at a single facility in Manila, Philippines.

Despite the transition of our manufacturing operations to Ionics, we are still exposed to manufacturing risks as a result of our dependence on a single manufacturing facility and a single sub-contractor for our subsystem module solutions. Such risks include lack of control over delivery schedules, manufacturing yields, quality and fabrication costs and the risk of material supply disruptions due to labor disputes, terrorism, political unrest, war, process abnormalities, human error, theft, government intervention, or a natural disaster such as a fire, earthquake, or flood. If we encounter any significant delays or disruptions, including those caused by our subcontractor s inability to procure component parts or supply us with product, 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, resulting in losses and potential enforcement of contractual line down clauses by customers, subjecting us to high litigation costs and settlement payments. Additionally, our subcontractor could elect to close its production facility or require us to move to another production facility or subcontractor. Any resulting delay could result in increased expense and costs and could have a material adverse effect on our business and results of operations.

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

We do not own or operate a semiconductor fabrication facility. We primarily rely on IBM and X-FAB, outside subcontractors, to produce most of our RF integrated circuit products. Our reliance on third-party suppliers involves risks such as reduced control over delivery schedules, quality assurance and fabrication costs and the risk of material supply disruptions. We do not have a long-term supply agreement with our subcontractors and instead obtain manufacturing services on a purchase order basis. Our subcontractors 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 subcontractors, and they may reallocate capacity to other customers even during periods of high demand for our integrated circuits. If our subcontractors were unable or unwilling to continue manufacturing our integrated circuits, our business would be materially adversely affected. In such an event, we would be required to identify and qualify substitute subcontractors, which would be time consuming and difficult, and may result in unforeseen manufacturing and operational 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 subcontractors, we may be exposed to increased risk of capacity shortages due to our dependence on IBM and X-FAB. In addition, the processing of our integrated circuit products are specific to the manufacturing processes of one or the other of our two suppliers and substantial lead-time would be required to move the specific product to the other supplier, if it were possible at all. Further, our customers may limit their purchases from us unless a second manufacturing source is developed, which could impact our sales. We will begin using Jazz Semiconductor as an alternate source in the future for certain of our integrated circuit products, however, there can be no assurance that the establishment of a second manufacturing source would successfully mitigate the risks identified above.

We depend on third-party subcontractors for integrated circuit probing, packaging and testing, which reduces our control over these processes and could result in increased costs and decreased availability of our integrated circuit products.

Our integrated circuit products are probed, packaged, and/or tested by independent subcontractors, including Amkor, ASE, ISE and Criteria Labs, using facilities located in South Korea, Philippines, and Austin, Texas. We do not have long-term agreements with these subcontractors and typically obtain services from them on a purchase order basis. Furthermore, our subcontractors are dependent on certain third-party test equipment manufacturers. Our reliance on these subcontractors and on certain third-party test equipment manufacturers involves risks such as reduced control over delivery schedules, quality assurance and costs. Our reliance on Criteria Labs involves additional risk due to its recent emergence from bankruptcy proceedings. These risks could result in product shortages or increase our costs of probing, packaging and testing our products. If these subcontractors are unable or unwilling to continue to provide probing, packaging and testing services of acceptable quality, at acceptable costs and in a timely manner, it could have a material adverse effect on our business. In such an event, we would be required to identify and qualify substitute subcontractors, which could be time consuming and difficult and may result in unforeseen operational problems.

If our customers do not qualify our products or the manufacturing lines of our third-party suppliers for volume shipments, our revenue may be delayed or reduced.

Some customers will not purchase any of our products, other than limited numbers of evaluation units, prior to qualification of the manufacturing lines for the product. We may not always be able to satisfy the qualifications. Delays or failure to qualify can cause a customer to discontinue use of our products and result in a significant loss of revenue. If we change third-party suppliers, customers may require us to qualify the new supplier s facility, or a product manufactured by that facility.

We believe that transitioning our silicon products to newer or better manufacturing 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 or better integrated circuits because we believe this migration is required to remain competitive. Other companies in the industry have experienced difficulty in migrating to new process technologies

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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 subcontractors to successfully migrate to newer or better processes. Our foundry suppliers may not make newer or better process technologies available to us on a timely or cost-effective basis, if at all. If our foundry suppliers do not make newer or better manufacturing process technologies available to us on a timely or cost-effective basis, or if we experience difficulties in migrating to these processes, it could have a material adverse effect on our competitive position and business prospects.

Uncertainties in our production planning process could have a material adverse effect on our business.

For many of our products, our manufacturing lead-time is greater than the delivery lead-times we quote our customers. Therefore, in many cases we routinely manufacture or purchase inventory based on estimates of customer demand for our RF products, which demand is difficult to predict. The cancellation or re-scheduling 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 RF products to our customers in a timely manner could harm our reputation and damage our relationships with our customers.

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

The semiconductor industry periodically experiences increased demand and production capacity constraints. An increase in demand for semiconductors could substantially increase the cost of producing our RF 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.

Changes in the accounting treatment of stock options will adversely affect our results of operations.

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*. SFAS No. 123R is a revision of SFAS No. 123, *Accounting for Stock Based Compensation,* and supersedes APB No. 25. Among other things, SFAS No. 123R eliminates the use of APB No. 25 and the intrinsic value method of accounting, and requires companies to recognize in their financial statements the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards. As recently amended, the effective date of SFAS No. 123R is the beginning of the first fiscal year beginning after June 15, 2005, which is January 1, 2006 for calendar year companies, although early adoption is allowed. This change in accounting treatment will have a material adverse effect on our reported results of operations because the stock-based compensation expense will be charged directly against our reported earnings. For an illustration of the effect of such a change in our recent results of operations, see Note 1, Summary of Significant Accounting Policies, to the Notes to Consolidated Financial Statements.

Our research and development efforts are critical to our business and if these efforts are unsuccessful, it will have a material adverse effect on our business and results of operations.

Any future success will depend, in large part, upon our ability to develop new RF products for existing and new markets; our ability to introduce these new products in a cost-effective and timely manner; and our ability to meet customer specifications and convince leading manufacturers to select these new products for design into their new products. Developing new products and improving our existing products requires substantial continuing investments of engineering resources. We have often encountered and continue to encounter difficulties attracting and retaining the highly sophisticated engineering personnel required to timely develop our products and meet our customers design windows. In addition, the development of new RF 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 little or no experience, and delivering performance characteristics, such as low power consumption, at levels that we have not previously achieved. Our efforts to address the mobile TV market segment, in particular, will depend on our ability to overcome the challenges described above and upon eventual industry acceptance of our new mobile TV products, such as the MT2260 and MT2262. Some of our past research and development efforts have failed. For example, our Bluetooth products never gained wide market acceptance. Successful product development depends on a number of factors, including:

- the accuracy of our prediction of emerging market requirements and evolving standards;

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- the acceptance of our new product designs by our customers and of our customers products by consumers;
- the availability of qualified product designers and our ability to attract and retain them; and
- our ability to successfully design, develop, manufacture and integrate new components to increase our product functionality in a timely manner.

We have made significant changes in our executive management and reduced the scope and costs of our worldwide operations. Because of our reduced scope of operations and management discontinuity, our research and development efforts in our core technologies may lag behind those of our competitors, some of whom have substantially greater financial and technical resources. As a result of these factors, we may be unable to develop and introduce new RF products successfully and in a cost-effective and timely manner, and any new products we develop and offer may never achieve market acceptance. These failures would have a material adverse effect on our business, financial condition and results of operations.

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 agreements and procedures and licensing arrangements to protect our intellectual property rights. We currently have patents issued and pending in the United States and in foreign countries. We intend to seek further United States 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 commercial advantage. While we generally seek patent protection for our innovations, it is possible that some of these innovations may not be protectable. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents.

In addition, even when we do hold valid patents that we could potentially assert against a competitor s infringing products, it may not be practicable, effective or cost-efficient for us to enforce our intellectual property and contractual rights fully, particularly, where the initiation of a claim might harm our business relationships or risk a debilitating countersuit by a competitor with patents that read on our products.

Our competitors also may 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 United States, increasing the possibility of piracy of our technology and products.

In addition to patent and copyright protection, we also rely on trade secrets, technical know-how and other non-patented proprietary know-how relating to our product development and manufacturing activities, which we seek to protect, in part, by confidentiality agreements with our customers, partners, suppliers and employees. We cannot be certain that our confidentiality agreements will not be breached, that we would have adequate remedies for any such breach or that trade-secrets and proprietary know-how will not otherwise become known by others. Although we intend to protect and 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 obtain through acquisitions or by other means will be free from third-party claims which may be valid. Any third-party claims may lead to costly and time-consuming litigation, which could have a material adverse effect on our business, financial condition and results of operations.

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

We have been involved in intellectual property litigation in the past and may become involved in intellectual property litigation in the future to protect our intellectual property or defend against allegations of infringement asserted by others. Legal proceedings could subject us to significant liability for damages or invalidate our proprietary rights either through

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litigation or a petition for USPTO re-examination initiated by a competitor. Any litigation, regardless of its outcome, would likely be time-consuming and expensive to resolve and would divert the time and attention of our management and technical personnel.

The expense associated with intellectual property litigation, the diversion of time and attention of our management and technical personnel from our daily operations caused by such litigation and any legal limitation placed upon our products and/or our business related to such litigation may have a material adverse effect on our business and results of operations.

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 their validity. Even if we successfully assert our intellectual property against a competitor in litigation, our patents may be attacked through a USPTO re-examination, which cannot be settled by the mutual agreement of the parties. For example, despite the settlement of all of our outstanding patent litigation with a competitor in the second quarter of 2004, we must continue to prosecute the validity of our 035 patent in the re-examination proceedings initiated by that competitor. If we are unsuccessful in our efforts to confirm the validity of certain claims of our 035 patent, others will be able to compete directly against us, which could materially and adversely affect our ability to sell our products and grow our business. Any 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.

Our ability to sell our RF products may be adversely affected if it is determined that we or our customers infringe on the intellectual property of a third-party or if any of our issued patents are determined to be invalid.

The electronics industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which may result in significant and often protracted and expensive litigation. Our customers may be subject to infringement claims for their products which incorporate our RF products. If any claims of infringement are made against any of our customers, our customers may seek to involve us in the litigation and demand indemnification from us. The resolution of such a claim against our customer may cause our customer to reduce or completely eliminate marketing its infringing product, which would decrease our sales of RF products to this customer. Further, if our customer were to prevail 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 and 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 infringed intellectual property to sell or use the relevant technology, which may not be available on commercially reasonable terms, if at all.

We may be unsuccessful in developing non-infringing products or obtaining licenses upon commercially reasonable terms. We may be unable to resolve these problems which could have a material adverse affect on our business, financial condition and results of operations.

If we do not anticipate and adapt to evolving industry standards in the cable, digital TV and automotive markets, or if industry standards develop more slowly than we expect, our products could become obsolete and we could lose market share.

Applications and devices for cable, digital TV and automotive markets often are based on industry standards that are continuously evolving. We have often directed our development toward producing RF products that comply with these evolving standards. In some cases, the development of these standards takes longer than originally anticipated. The delayed development of a standard in our target markets has and could result in slower deployment of new technologies, which can

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harm our ability to sell our RF products, or frustrate the continued use of our proprietary technologies, due to the anticipation of the deployment of a standard. The continued delay in the development of these industry standards could result in fewer manufacturers purchasing our RF 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 revenue and consequently harm our business. Additionally, our competitors may attempt to relax anticipated standards that we have expended significant research and development funds to meet, thereby eliminating any technical advantages that our products may have. Further, if new unexpected industry standards do emerge, and we have failed to accurately anticipate or design products that meet such standards, our products or our customers products could become unmarketable or obsolete.

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 for our RF products in the cable, digital TV and automotive markets, or to develop and introduce new products that are functionally and economically competitive into these markets, could result in diminished revenue and, consequently, harm our business, financial condition and results of operations. In addition, we may incur substantial unanticipated costs to comply with these evolving standards.

We have experienced volatility in our stock price and it may fluctuate in the future. Therefore, you may be unable to resell shares of our common stock at or above the price you paid for them.

The market price of our common stock has fluctuated in the past and may fluctuate significantly in the future. For example, during 2005, our common stock has traded at prices as low as $3.05 and as high as $7.11 per share. Such fluctuations may be influenced by many factors, many of which are outside of our control, including:

- quarterly variations in our financial performance;
- our business prospects;
- the performance and prospects of our major customers;
- the depth and liquidity of the market for our common stock;
- investor perception of us and the industry in which we operate;
- changes in earnings estimates or buy/sell recommendations by analysts;
- short-term investor trading strategies;
- recent changes in accounting rules related to the expensing of equity awards;
- general financial and other market conditions; and

domestic and international economic and political conditions.

Public stock markets have experienced, and are currently experiencing, extreme price and trading volume volatility, particularly in the technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to or disproportionately impacted by the operating performance of these companies. These broad market fluctuations may materially and adversely affect the market price of our common stock. In addition, fluctuations in our stock price and our price-to-earnings multiple may have made our stock attractive to momentum, hedge or day trading investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction, particularly when viewed on a quarterly basis.

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Currency fluctuations related to our international operations could have a material adverse effect on our financial results.

A significant portion of our international revenue and expenses are denominated in foreign currencies, primarily the Euro, and we have experienced significant fluctuations in our financial results due to changing exchange rates rather than operational changes. For example, the foreign currency exchange loss was approximately $0.3 million in 2005. We expect to continue to rely significantly on international sales and foreign subcontractors for the foreseeable future. As a result, we expect currency fluctuations to continue, and such fluctuations may significantly impact our financial results in the future. Currently, we do not engage in currency hedging activities, and in the future, we may choose to engage in currency hedging activities to reduce these fluctuations, which may or may not prove to be successful.

We may need to obtain the capital required to grow our business.

From time to time, we may find it necessary or we may choose to seek additional financing if our strategic growth plans change, or if industry or market conditions are favorable for a particular type of financing. Our capital requirements depend upon several factors, including the need to fund future acquisitions, the capital required to meet our research and development objectives, 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. There can be no assurance that we will be able to raise additional funds if needed. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced. Further, if we issue equity securities, 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 generally will have rights senior to those of existing holders of equity securities. If we cannot raise needed funds on acceptable terms, we may not be able to acquire strategic businesses, develop our products and services, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, any of which could have a material adverse effect on our ability to grow our business.

Our business could be disrupted if we are unable to successfully integrate any businesses, technologies, product lines or services that we may acquire in the future.

As part of our business strategy, we may review and selectively pursue potential acquisitions that could complement our current product offerings, augment our market coverage, complement our technical capabilities, or that would otherwise provide growth opportunities. While we currently have no imminent plans to pursue an acquisition, we may make strategic acquisitions or investments or enter into joint ventures or strategic alliances with other companies in the future, which may entail many risks. Specific examples of risks that could relate to such transactions include:

- risks that we will be unable to successfully integrate the acquired company s personnel and businesses;
- risks that we will be unable to realize anticipated synergies, economies of scale or other value associated with the transactions;
- risks related to acquisition-related charges and amortization of acquired technology and other intangibles that could negatively affect our reported results of operations;
- risks that such transactions will divert management s time and attention and disrupt our ongoing business;
- risks that we will be unable to retain key technical and managerial personnel of the acquired company;
- risks that we will be unable to establish and maintain uniform standards controls, procedures and policies;

risks related to unanticipated costs, capital expenditures or working capital requirements and the assumption of unknown liabilities or other unanticipated events or circumstances;

risks that the acquired company s customers will not desire to conduct business with us;

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risks related to strained relationships with employees, suppliers and customers resulting from the integration of new personnel; and

risks related to strained relationships with strategic partners who may compete with the acquired company.

In addition, future acquisitions or investments may require us to materially reduce our cash reserves; issue additional equity which would be dilutive to our stockholders or to incur debt. We cannot assure you that any acquisition or joint venture will be successfully integrated with our operations and the failure to avoid these or other risks associated with such acquisitions or investments could have a material adverse effect on our business, financial condition and results of operations.

Our Quality Certifications are subject to periodic re-evaluation.

Our design facility located in Ingolstadt, Germany is currently ISO-9000:2000 and ISO-14001 certified. These certifications and others are subject to recertification on a periodic basis. If we are unable to obtain any such recertification, it could have a material adverse effect on our business.

Our products are subject to certain environmental standards.

Beginning July 1, 2006, our product shipped into certain regions of the world must comply with the Restriction of Hazardous Substances Directive 2002/95/EC (RoHS) which restricts the use of hazardous substances in electrical and electronic equipment that is imported into the European Union. We currently have lead-free versions of our silicon products and we are in the process of altering our applicable subsystem module solutions to also be lead-free. If our customers are unable to re-qualify the lead-free versions of our products or our subsystem module manufacturers are unable to meet the RoHS/lead-free standards in a timely manner, it could have a material adverse effect on our business, results of operations and financial condition.

Our international operations, including our operations in Germany, Taiwan, Japan, China and Korea, the operations of our international suppliers and our overall financial results may be adversely affected by events that occur in or otherwise affect these countries.

We currently have facilities and suppliers located outside of the United States, including research and development operations in Germany and sales offices in Japan, Taiwan, China and Korea. Other than IBM, ISE and Criteria Labs, substantially all of our suppliers are located outside the United States, and substantially all of our products are manufactured outside the United States. 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 any country, including the United States, imposes significant import restrictions on our products, our ability to import our products into that country 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 and Korea, where there has been political instability in the past, could result in unpleasant or intolerable conditions for workers, and ultimately could result in a shutdown of our facilities or our subcontractor s facilities.

Our success could be jeopardized by the loss of key personnel or an inability to attract qualified candidates.

Any success we may have in the future will depend to a significant degree upon the continued service of our personnel, particularly our key personnel and executive management. The members of our executive management are not parties to employment agreements with Microtune. The loss of one or more members of our executive management or other key personnel could have an adverse effect on our operations. Our future success also depends on our ability to attract, retain and motivate qualified personnel with experience in RF engineering, integrated circuit design and software and technical marketing and support. We rely heavily upon equity compensation incentives, such as options to purchase our common stock to attract, retain and motivate such personnel. The equity incentives of our competitors and other elements of our competitors compensation structures, particularly cash compensation, may be significantly more attractive than the compensation packages we offer.

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With respect to retaining personnel, the market price of, or other price attainable for, our common stock directly affects the relative attractiveness and effectiveness of our stock options as a recruiting and retention tool. In the past, our common stock price has been substantially higher than currently prevailing prices. Any future poor operating performance we experience may cause the price of our common stock to decline from current levels. In addition, due to the recent issuance of SFAS No. 123R, Share-Based Payment, requiring companies to recognize the cost of employee services received in exchange for awards of equity instruments in the financial statements, we may change our strategy for compensating employees. A lower market price of our common stock, along with any related deterioration in the morale of our personnel regarding this component of their compensation, may result in our loss of personnel, including key personnel and executive management. These personnel losses could reasonably be expected to have a prompt, material and adverse effect on our business and operations.

The competition for attracting qualified candidates is intense, particularly so in the RF silicon and RF systems industries. Our ability to attract qualified candidates is essential to any success we may have in the future. For the reasons described above, there can be no assurance that we will be able to continue to attract, retain and motivate qualified technical, management, and other candidates necessary for the design, development, manufacture and sale of our RF products in the future.

Provisions in our charter documents, Delaware law and our stockholder rights plan may deter takeover efforts and limit the ability of our stockholders to receive a premium for their shares of our common stock.

Several provisions of our restated certificate of incorporation, Delaware law and our stockholder rights plan may discourage, delay or prevent a merger or acquisition that you may consider favorable and therefore may prevent our stockholders from receiving a premium for their shares of our common stock.

Those provisions include:

- a provision authorizing the issuance of blank check preferred stock;
- a provision prohibiting cumulative voting in the election of directors;
- a provision limiting the persons who may call special meetings of the board or the stockholders;
- a provision prohibiting stockholder action by written consent;
- a provision 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;
- a provision establishing super-majority voting requirements in some instances; and
- a provision providing rights to purchase fractional shares of preferred stock to our existing stockholders in the event of certain acquisition attempts.

On May 25, 2005, our stockholders approved certain amendments to our amended and restated certificate of incorporation and amended and restated bylaws that had the effect of declassifying our board of directors so that all of our directors must stand for election every year at our annual meeting of stockholders. The declassification of our board of directors was a requirement of our settlement of the consolidated derivative stockholder litigation.

We have been the target of several securities fraud class action complaints in the past and are at risk of future securities class action litigation. Future litigation could result in substantial costs to us, drain our resources and divert our management s time and attention.

Initial Public Offering Litigation

Starting on July 11, 2001, multiple purported securities fraud class action complaints were filed against us, certain former executive officers and certain investment banks that served as underwriters of our initial public offering. We have accepted a settlement proposal presented to all issuer defendants and are waiting for final court approval. For additional discussion of this litigation, see Note 11, Commitments and Contingencies, to the Notes to Consolidated Financial Statements.

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Class Action Litigation

Beginning in February 2003, Microtune and certain of our former executive officers were named as defendants in several class action lawsuits alleging violations of federal securities laws and regulations.

On November 23, 2004, Microtune and the other defendants entered into a settlement agreement with the plaintiffs under which the defendants agreed to settle the consolidated lawsuit for $5.625 million, inclusive of attorneys fees and costs, in return for a full release of all claims and dismissal of the consolidated lawsuit. On April 4, 2005, the district court entered an order of dismissal and final judgment which gave final approval to the securities class action litigation settlement. Microtune and the other defendants made no admission of wrongdoing as part of the settlement. For additional discussion of this litigation, see Note 11, Commitments and Contingencies, to the Notes to Consolidated Financial Statements.

Stockholder Derivative Litigation

Beginning on October 30, 2003, various stockholder derivative lawsuits were filed against current and former officers and directors of Microtune, alleging various breaches of fiduciary duties, abuse of control, and waste of corporate assets.

On January 10, 2005, Microtune and the other defendants entered into a settlement agreement with the plaintiffs to settle the derivative litigation. Under the terms of the agreement, Microtune agreed to pay the plaintiffs attorneys fees and expenses in an amount not to exceed $1.125 million and further agreed to adopt certain changes to its corporate governance policies in exchange for a full release of all claims and dismissal of the derivative litigation. On March 31, 2005, the district court entered an order of dismissal and final judgment which gave final approval to the stockholder derivative litigation settlement. Microtune and the other defendants made no admission of wrongdoing as part of the settlement. For additional discussion of this litigation, see Note 11, Commitments and Contingencies, to the Notes to Consolidated Financial Statements.

There is no guarantee our insurance coverage, including our directors and officers liability insurance, will be sufficient to cover any eventual liability and any shortfall in insurance coverage would impact our cash position which could have a material adverse effect on our financial condition.

We purchase various insurance policies to cover specifically designated risks in varying amounts. There is no guarantee that when a claim arises under any of the covered risks that our coverage will be sufficient to cover the entire claim or that any specific claim will be covered, even in part, by insurance. Furthermore, directors and officers liability insurance may not be available to us in sufficient amounts to cover any claims made or defense costs incurred if securities litigation is filed against us in the future. These factors may result in rapid and substantial depletion of our cash reserves, and this depletion may result in our inability to properly operate our business and could have a material adverse effect on our financial condition.

Investor confidence and share value may be adversely affected if we are unable to file all required reports with the Securities and Exchange Commission in a timely manner.

Our ability to file in a timely manner with the Securities and Exchange Commission the reports required pursuant to the Securities Exchange Act of 1934, as amended, including quarterly reports on Form 10-Q and annual reports on Form 10-K, could be adversely affected by the following events:

- loss of key management or finance and accounting personnel;
- technical issues with our enterprise resource planning software or other financial reporting tools;
- delays in the review of our quarterly results or audit of our annual results by our outside auditors;

unexpected change of our independent audit firm;

significant acquisitions or mergers;

disposition of a portion of our business; and

acts of God or force majeure.

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Any delay in filing any such report could result in a loss of investor confidence in the reliability of our financial statements and an adverse reaction in the financial marketplace, which ultimately could adversely impact the market price of our shares. Additionally, this could result in the delisting of our stock from The NASDAQ National Market and subsequent quoting of our stock on the pink sheets, hindering liquidity of our stock and increasing trading costs and fees for investors.

If we or our independent registered public accounting firm are unable to provide adequate attestation regarding the adequacy of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, it may have a material adverse effect on investor confidence and the market value of our common stock.

The Securities and Exchange Commission, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management on the company s internal controls over financial reporting in its annual reports on Form 10-K that contains an assessment by management of the effectiveness of the company s internal controls over financial reporting. In addition, the company s independent registered public accounting firm must attest to and report on management s assessment of the effectiveness of the company s internal controls over financial reporting. This requirement will continue to apply to our future Annual Reports on Form 10-K. We have a complex business organization that is international in scope. Ensuring that we have adequate internal financial and accounting controls and procedures in place to help ensure that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be reevaluated frequently. Although we intend to diligently and vigorously review our internal controls over financial reporting in order to ensure compliance with the Section 404 requirements, there can be no assurance that we will be successful in future years. Further, if our independent registered public accounting firm is not satisfied with our internal controls over financial reporting or the level at which these controls are documented, designed, operated or reviewed, or if the independent registered public accounting firm interprets the requirements, rules or regulations differently from us, then they may decline to attest to management s assessment or may issue a report that is qualified. This could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact the market price of our shares. Additionally, this could result in the delisting of our stock from The NASDAQ National Market and subsequent quoting of our stock on the pink sheets, hindering liquidity of our stock and increasing trading fees to investors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal offices and corporate headquarters are located in Plano, Texas. Our Plano location includes administrative, finance, operations, research and development and sales and marketing functions and consists of approximately 44,000 square feet. In 2005, we entered into an amendment to the lease for our corporate headquarters, extending the lease term an additional 10 years with certain rights of early termination with corresponding penalties, reducing the monthly base rent and providing a tenant improvement allowance. This lease extension also included a brief rent abatement and escalating rent payments. The design center for our automotive business is in Ingolstadt, Germany, where we lease approximately 35,000 square feet. The Ingolstadt lease will expire in 2021. In February 2006, we opened a design center in Plantation, Florida. We also have sales and technical support offices in Huntsville, Alabama; Campbell, California; Solano Beach, California; Atlanta, Georgia; Chicago, Illinois; Raleigh, North Carolina; Tokyo, Japan; Taipei, Taiwan, Shenzhen, China and Seoul, South Korea. We believe our facilities are adequate for our current and near-term needs and that we will be able to locate additional facilities as needed. See Note 11, Commitments and Contingencies, to the Notes to Consolidated Financial Statements for more information about our lease commitments.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under Note 11, Commitments and Contingencies, to the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, is incorporated herein by reference and is as disclosed in our original Annual Report on Form 10-K filed on March 3, 2006, and has not been updated as part of this amended Annual Report on Form 10-K/A, except for the reference below to Note 2, Restatement of Consolidated Financial Statements, to the Notes to Consolidated Financial Statements. For an additional discussion of certain risks associated with legal proceedings, see the section entitled Risk Factors in Item 1A.

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See Note 2, Restatement of Consolidated Financial Statements, to the Notes to Consolidated Financial Statements for more information about legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on The NASDAQ National Market under the symbol TUNE. From the period July 7, 2003 through April 23, 2004, our common stock was quoted on the pink sheets under the symbol TUNE.PK. The following table shows the range of high and low sale prices reported on the pink sheets from January 1, 2004 through April 23, 2004 and The NASDAQ Stock Market from April 26, 2004 through December 31, 2005. On February 24, 2006, the closing price of our common stock was $5.46 as quoted on The NASDAQ National Market.

	Year Ended December 31,			
	2005		2004	
	High	Low	High	Low
First Quarter	$ 6.17	$ 4.16	$ 3.02	$ 2.14
Second Quarter	$ 5.35	$ 3.05	$ 4.76	$ 2.48
Third Quarter	$ 7.11	$ 4.87	$ 5.62	$ 3.45
Fourth Quarter	$ 6.33	$ 3.70	$ 6.77	$ 4.40

We were delisted from The NASDAQ National Market effective July 7, 2003 and were relisted for trading on The NASDAQ National Market effective April 26, 2004.

On August 9, 2006, we notified The NASDAQ Stock Market that we had not timely filed our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 with the SEC. Therefore, we were not in compliance with NASDAQ s filing requirement as set forth in NASDAQ Marketplace Rule 4310(c)(14), which requires, among other things, that we timely file all required reports with the SEC. Consequently, on August 14, 2006, we received a staff determination letter from the staff of NASDAQ indicating that our failure to timely file our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 served as a basis for delisting our common stock from The NASDAQ Global Market at the opening of business on August 23, 2006 unless we requested a hearing in accordance with NASDAQ Marketplace Rules 4800 through 4811. We requested a hearing, which was held on September 21, 2006, at which we requested the continued listing of our common stock. On November 13, 2006, we notified The NASDAQ Stock Market that we had not timely filed our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 with the SEC. Therefore, we were not in compliance with NASDAQ s filing requirement as set forth in NASDAQ Marketplace Rule 4310(c)(14) and described above. Consequently, on November 14, 2006, we received an additional staff determination letter from the staff of NASDAQ indicating that our failure to timely file our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 as required served as an additional basis for delisting our common stock from The NASDAQ Global Market.

On November 16, 2006, we received notice that the Listing Qualifications Panel of The NASDAQ Stock Market had granted our request for the continued listing of our common stock on The NASDAQ Global Market. The continued listing of our common stock is subject to two conditions. First, on or about December 4, 2006, we were required to provide additional information to NASDAQ regarding our Audit Committee s investigation of our stock option grant practices. On December 4, 2006, we provided the NASDAQ Listing Qualifications Panel with the preliminary findings of the Audit Committee s investigation into our stock option granting practices. Second, on or before January 22, 2007, we were required to file our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2006 and September 30, 2006, respectively, and any necessary restatements of our prior financial statements with the SEC. We are filing such Quarterly Reports contemporaneously with this amended Annual Report on Form 10-K/A and an amended Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2006. As of the date of this filing, we believe we have satisfied the foregoing conditions for the continued listing of our common stock on The NASDAQ Global Market.

We believe factors such as quarterly fluctuations in results of operations; announcements by us, our competitors, or our customers; technological innovations; new product introductions; governmental regulations; litigation or changes in earnings estimates by analysts may cause the market price of our common stock to fluctuate, perhaps substantially. In addition, the stock prices of many technology companies fluctuate widely for reasons that may be unrelated to their operating results. The broad market and industry fluctuations may also adversely affect the market price of our common stock.

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Stockholders

As of February 24, 2006, there were 52,842,432 shares of our common stock outstanding held by 242 holders of record, and approximately 7,900 beneficial holders.

Dividends

We have never paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future.

Net proceeds from our public offerings are being used to fund operations and capital expenditures and could potentially be used to fund acquisitions. The remaining proceeds of our public offerings have been invested in interest bearing, investment-grade securities for future use.

For information regarding stock-based compensation awards outstanding and available for future grants, see Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. For additional information on our stock incentive plans and activity, see Note 12, Stockholders Equity, to the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data has been restated and is derived from our consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto and with Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and with the other financial data included elsewhere in this report. The comparability of the information presented below is affected by a variety of factors, including acquisitions and dispositions of businesses and restructuring costs. To better understand the information in the table, investors should read Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7, and Financial Statements and Supplementary Data in Item 8. Our historical results of operations are not necessarily indicative of results of operations to be expected for any future period.

See Note 2, Restatement of Consolidated Financial Statements, to the Notes to Consolidated Financial Statements for more detailed information regarding the restatement of our consolidated financial statements for the years ended December 31, 2005, 2004 and 2003, and selected financial data for the years ended December 31, 2005, 2004, 2003, 2002, 2001, 2000 and 1999.

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	Year Ended December 31,						
	2005(2) Reported	2004(3) Reported	2003(4) Reported	2002(5) Reported	2001(6) Reported	2000(6) Reported	1999 Reported
Consolidated Statements of Operations Data:							
(In thousands, except per share data)							
Net revenue	$ 56,991	$ 56,162	$ 46,193	$ 65,806	$ 55,528	$ 70,829	$
Gross margin	29,661	24,662	9,230	7,116	14,381	24,460	
Loss from operations	(4,176)	(19,768)	(54,881)	(183,725)	(67,457)	(30,759)	(9,090)
Net income (loss)	(1,791)	5,529	(50,340)	(182,862)	(67,219)	(31,794)	(8,508)
Basic income (loss) per common share (7)	$ (0.03)	$ 0.11	$ (1.00)	$ (3.50)	$ (1.67)	$ (1.57)	$ (1.34)
Diluted income (loss) per common share (7)	$ (0.03)	$ 0.10	$ (1.00)	$ (3.50)	$ (1.67)	$ (1.57)	$ (1.34)

	Year Ended December 31,						
	2005(2) Adjustments[1]	2004(3) Adjustments[1]	2003(4) Adjustments[1]	2002(5) Adjustments[1]	2001(6) Adjustments[1]	2000(6) Adjustments[1]	1999 Adjustments[1]
Consolidated Statements of Operations Data:							
(In thousands, except per share data)							
Net revenue	$	$	$	$	$	$	$
Gross margin							
Loss from operations	(647)	(739)	(1,183)	(3,769)	(1,289)	(877)	(232)
Net income (loss)	(647)	(739)	(1,183)	(3,769)	(1,289)	(877)	(232)
Basic income (loss) per common share (7)	$ (0.02)	$ (0.02)	$ (0.02)	$ (0.07)	$ (0.03)	$ (0.04)	$ (0.04)
Diluted income (loss) per common share (7)	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.07)	$ (0.03)	$ (0.04)	$ (0.04)

	Year Ended December 31,						
	2005(2) Restated[1]	2004(3) Restated[1]	2003(4) Restated[1]	2002(5) Restated[1]	2001(6) Restated[1]	2000(6) Restated[1]	1999 Restated[1]
Consolidated Statements of Operations Data:							
(In thousands, except per share data)							
Net revenue	$ 56,991	$ 56,162	$ 46,193	$ 65,806	$ 55,528	$ 70,829	$
Gross margin	29,661	24,662	9,230	7,116	14,381	24,460	
Loss from operations	(4,823)	(20,507)	(56,064)	(187,494)	(68,746)	(31,636)	(9,322)
Net income (loss)	(2,438)	4,790	(51,523)	(186,631)	(68,508)	(32,671)	(8,740)
Basic income (loss) per common share (7)	$ (0.05)	$ 0.09	$ (1.02)	$ (3.57)	$ (1.70)	$ (1.62)	$ (1.38)
Diluted income (loss) per common share (7)	$ (0.05)	$ 0.09	$ (1.02)	$ (3.57)	$ (1.70)	$ (1.62)	$ (1.38)

	December 31,						
	2005(2) Reported	2004(3) Reported	2003(4) Reported	2002(5) Reported	2001(6) Reported	2000(6) Reported	1999 Reported
Consolidated Balance Sheet Data:							
(In thousands)							
Cash and cash equivalents	$ 5,068	$ 34,515	$ 22,637	$ 61,278	$ 111,149	$ 77,650	$ 20,129
Short-term investments	77,120	44,460	36,745	40,000	62,000		
Working capital	88,764	83,334	59,647	97,639	173,486	90,901	19,643

Long-term investments		3,587	14,028	5,000			
Total assets	103,321	104,755	100,659	157,096	332,353	153,031	22,277
Total stockholders equity	94,695	94,645	86,724	130,689	306,758	132,107	21,605

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	December 31,						
	2005(2) Adjustments[1]	2004(3) Adjustments[1]	2003(4)	2002(5)	2001(6)	2000(6)	1999