UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

OR

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

FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission file number 000-31029-40

MICROTUNE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**75-2883117**
(State or other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification Number)**

2201 10th Street

Plano, Texas 75074

(Address of principal executive office and zip code)

(972) 673-1600

(Registrant s telephone number, including area code)

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

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 Exchange Act).   Yes ¨   No x

As of January 15, 2007, there were approximately 53,290,164 shares of the Registrant s Common Stock, $0.001 par value per share outstanding.

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FORM 10-Q

June 30, 2006

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PART I.

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MICROTUNE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(unaudited)

	June 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 2,743	$ 5,068
Short-term investments	80,968	77,120
Accounts receivable, net	7,555	5,911
Inventories	7,160	7,944
Other current assets	1,684	1,293
Total current assets	100,110	97,336
Property and equipment, net	4,143	4,398
Other assets and deferred charges	1,319	1,587
Total assets	$ 105,572	$ 103,321
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 3,912	$ 5,414
Accrued compensation	2,179	1,769
Accrued expenses	1,135	1,651
Deferred revenue	112	8
Total current liabilities	7,338	8,842
Other non-current liabilities	56	54
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value Authorized 25,000 shares Issued and outstanding shares none		
Common stock, $0.001 par value Authorized 150,000 shares Issued and outstanding shares 53,230 and 52,761, respectively	53	53
Additional paid-in capital	451,574	448,726
Unearned stock compensation		(1,105)
Accumulated other comprehensive loss	(995)	(1,013)
Accumulated deficit	(352,454)	(352,236)
Total stockholders equity	98,178	94,425

Total liabilities and stockholders equity	$ 105,572	$ 103,321

See accompanying notes.

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MICROTUNE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net revenue	$ 19,170	$ 13,487	$ 34,695	$ 25,668
Cost of revenue	9,623	5,785	17,029	11,600
Gross margin	9,547	7,702	17,666	14,068
Operating expenses:				
Research and development	5,343	3,997	10,144	8,090
Selling, general and administrative	5,025	4,311	9,666	8,464
Amortization of intangible assets		674		1,348
Total operating expenses	10,368	8,982	19,810	17,902
Loss from operations	(821)	(1,280)	(2,144)	(3,834)
Other income (expense):				
Interest income	1,004	583	1,907	1,088
Foreign currency gains (losses), net	92	(107)	151	(217)
Other		33	27	89
Income (loss) before provision for income taxes	275	(771)	(59)	(2,874)
Income tax expense (benefit)	129	(21)	159	22
Net income (loss)	$ 146	$ (750)	$ (218)	$ (2,896)
Net income (loss) per common share:				
Basic	$ 0.00	$ (0.01)	$ 0.00	$ (0.06)
Diluted	$ 0.00	$ (0.01)	$ 0.00	$ (0.06)
Weighted-average common shares outstanding:				
Basic	53,104	52,126	52,959	52,052
Diluted	55,530	52,126	52,959	52,052

See accompanying notes.

Net income for the second quarter and first half of 2006 included stock-based compensation expense under SFAS No. 123(R) of approximately $1.5 million and $2.9 million, respectively. See Note 1.

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MICROTUNE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Six Months Ended June 30, 2006	2005
Operating activities:		
Net loss	$ (218)	$ (2,896)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation	741	1,021
Amortization of intangible assets		1,348
Foreign currency (gains) losses, net	(151)	217
Stock-based compensation	2,920	309
Loss (gain) on sale of assets	5	(49)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,644)	(327)
Inventories	784	(953)
Other assets	(123)	(1,402)
Accounts payable	(1,502)	(261)
Accrued expenses	(412)	(1,553)
Accrued compensation	410	(59)
Other liabilities	2	
Net cash provided by (used in) operating activities	812	(4,605)
Investing activities:		
Purchases of property and equipment	(491)	(356)
Proceeds from sale of assets		51
Proceeds from maturity of held-to-maturity investments	1,620	
Proceeds from sale of available-for-sale investments	24,650	10,500
Purchase of available-for-sale investments	(30,100)	(30,000)
Net cash used in investing activities	(4,321)	(19,805)
Financing activities:		
Proceeds from issuance of common stock	1,033	435
Net cash provided by financing activities	1,033	435
Effect of foreign currency exchange rate changes on cash	151	(217)
Net decrease in cash and cash equivalents	(2,325)	(24,192)
Cash and cash equivalents at beginning of period	5,068	34,515
Cash and cash equivalents at end of period	$ 2,743	$ 10,323

See accompanying notes.

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MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(unaudited)

1. Summary of Significant Accounting Policies

Description of business

Microtune, Inc. began operations in August 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. We record our operating expenses by functional area and account type, but we do not record or analyze our operating expenses by market, product type or product. We attempt to analyze our net revenue by market, but in some cases we sell our products to resellers or distributors, giving us limited ability to determine market composition of our net revenue from these customers. In addition, certain of our OEM customers purchase product from us for applications in multiple end-markets, also limiting our ability to determine our net revenue contribution from each market.

General

The accompanying unaudited financial statements as of and for the second quarter and first half of 2006 and 2005 have been prepared by us, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in our Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed simultaneously with this report on January 22, 2007.

In the opinion of management, all adjustments which are of a normal and recurring nature and are necessary for a fair presentation of the financial position, results of operations, and cash flows as of and for the second quarter and first half of 2006 and 2005 have been made. Results of operations for the second quarter and first half of 2006 and 2005 are not necessarily indicative of results of operations to be expected for the entire year or any other period.

Risk and Uncertainties

Our future results of operations and financial condition will be impacted by the following factors, among others: dependence on the worldwide cable, digital TV and automotive electronics markets characterized by intense competition and rapidly changing technology, on a few significant customers, on third-party manufacturers and subcontractors, on third-party distributors in certain markets, on partners when we go to market with a joint solution and on the successful development and marketing of new products in new and existing markets. Our future results also may be impacted by foreign currency fluctuations as a result of our international operations and foreign currency based revenues, and product warranty liabilities and line down clauses. See Item 1A. Risk Factors below.

Consolidation

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

Use of Estimates

We make estimates, judgments and assumptions that affect the amounts reported in the financial statements and the disclosures made in the accompanying notes, including inventory valuation allowances, warranty costs, determining the collectibility of accounts receivable, the valuation of deferred tax assets, contingent liabilities and other amounts. We also use estimates, judgments and assumptions to determine the remaining economic lives and carrying values of purchased intangible assets, property and equipment and other long-lived assets. We believe that the estimates, judgments and assumptions upon

MICROTUNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(unaudited)

which we rely are appropriate and correct, based upon information available to us at the time that they are made. These estimates, judgments and assumptions can affect our reported assets and liabilities as of the date of the financial statements, as well as the reported revenue and expenses during the periods presented. If there are material differences between these estimates, judgments or assumptions and actual facts, our financial statements will be affected.

Cash and Cash Equivalents

We consider highly liquid investments with original maturities of three months or less at date of purchase to be cash equivalents. Cash and cash equivalents consist of bank deposits and money market funds.

Investments

Our investments are comprised of high-quality securities purchased in accordance with our investment policy. Investments in debt securities are classified as held-to-maturity when we intend to hold them to maturity. Held-to-maturity investments are carried at amortized cost with the amortization of the purchase discount recorded in interest income. Investments in debt securities not classified as held-to-maturity and equity securities are classified as available-for-sale and carried at fair value, with unrealized gains and losses, net of tax, recorded in stockholders equity. Realized gains and losses and other than temporary declines in value, if any, on available-for-sale securities are reported in other income and expense as incurred and are determined based on the specific identification method. At June 30, 2006, our short-term investments, which consist of corporate debt securities and other debt securities issued by United States government and state agencies, including auction-rate securities, included $76.0 million of available-for-sale investments and $5.0 million of held-to-maturity investments. The auction-rate securities in established markets are available to support current operations and are classified as short-term investments although their contractual maturities are greater than 10 years. At June 30, 2006, we held no long-term investments. The carrying values of our investments approximate their fair values. Our investments are reviewed periodically for other-than-temporary impairment. At June 30, 2006, the unamortized discounts on our investments were insignificant.

Allowance for Doubtful Accounts

We evaluate the collectibility of our accounts receivable based on several factors. In circumstances where we are aware of a specific customer s inability to meet its financial obligations to us, we record a specific allowance for bad debts against amounts due to us and reduce the net recorded receivable to the amount we reasonably believe will be collected. We also consider recognizing allowances for doubtful accounts based on the length of time the receivables are outstanding compared to contractual terms, industry and geographic concentrations, the current business environment and our historical experience. Accounts receivable included in the allowance for doubtful accounts are written-off after final collection efforts are exhausted. If the financial condition of our customers deteriorates or if economic conditions worsen, increases in the allowance may be required in the future. We cannot predict future changes in the financial stability of our customers, and there can be no assurance that our allowance will be adequate. Actual credit losses for the second quarter and first half of 2006 and 2005 were insignificant. No allowance for doubtful accounts was recorded as of June 30, 2006 and December 31, 2005.

Inventory Valuation

Our inventories are stated at the lower of standard cost, which approximates actual cost, or estimated realizable value. Amounts are removed from inventory using the first-in, first-out (FIFO) method. Adjustments to reduce our inventories to estimated realizable value, including allowances for excess and obsolete inventories, are determined quarterly by comparing inventory levels of individual materials and parts to current demand forecasts for those items. Actual amounts realized upon the sale of inventories may differ from estimates used to determine inventory valuation allowances due to changes in customer demand, technology changes and other factors. The net impact of changes in the inventory valuation allowances for the second quarter of 2006 and 2005 was a benefit to cost of revenue of approximately $0.1 million and $0.2 million, respectively. The net impact of changes in the inventory valuation allowances for the first half of 2006 and 2005 was a benefit to cost of revenue of approximately $0.4 million and $0.1 million, respectively.

Property and Equipment

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

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June 30, 2006

(unaudited)

Intangible Assets

Our intangible assets, which consist primarily of acquired patents and customer base, have been recorded as the result of our business or asset acquisitions. During the second quarter and first half of 2005, the remaining unamortized intangible assets were being amortized on the straight-line basis over 3 years. Amortization expense on intangible assets was $0.7 million and $1.3 million for the second quarter and first half of 2005, respectively. No amortization expense on intangible assets was recorded in the second quarter and first half of 2006 as our intangible assets became fully amortized in the quarter ended September 30, 2005.

Impairment of Long-lived Assets

We review long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We evaluate the recoverability of these assets by a comparison of their carrying amount to projected undiscounted cash flows expected to be generated by the assets or business center. If we determine our long-lived assets are impaired, we recognize the impairment in the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Revenue Recognition

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

Our revenue is recorded based on the facts then currently known to us. If we do not meet all the criteria above, we do not recognize revenue. If we are unable to determine the amount that we will ultimately collect once our product has shipped and title has transferred to our customer, we defer recognition of revenue until we can determine the amount that ultimately will be collected. Items that are considered when determining the amounts we will ultimately collect are: a customer s overall creditworthiness and payment history, customer rights to return unsold product, customer rights to price protection, customer payment terms conditioned on sale or use of product by the customer, or other extended payment terms granted to a customer. It is not our standard business practice to grant any of these terms to our customers, other than certain limited stock rotation rights discussed below.

For certain of our customers, we do not recognize revenue until receipt of payment because collection is not probable or the amount we will ultimately collect is not determinable at the date of the shipment. Upon shipment of product to these customers, title to the inventory transfers to the customer and the customer is invoiced. We account for these transactions by recording accounts receivable for the revenue value of the shipments, as the shipments represent valid receivables, and reducing inventory for the cost of the inventory shipped. The difference, representing the gross margin on the transactions, is recorded as deferred revenue. For financial statement presentation purposes, this deferred revenue balance is offset against the corresponding accounts receivable balance from the customer. When payment is received for the transaction, revenue is recognized for the value of the cash payment, cost of revenue is recorded for the cost of the inventory and the deferred revenue is relieved for the gross margin on the transaction. At June 30, 2006, no revenue was deferred for products shipped during the quarter. At December 31, 2005, the sales value of products shipped for which revenue was deferred was approximately $0.2 million. All of the revenue deferred at December 31, 2005 was recognized during the first quarter of 2006.

When we defer revenue, the timing and amount of revenue we ultimately recognize is determined upon our receipt of payment, which can result in significant fluctuations in revenue from period to period. In the second quarter of 2006 and 2005, we recognized 10% and 8%, respectively, of our net revenue upon receipt of payment. In the first half of 2006 and 2005, we recognized 7% and 7%, respectively, of our net revenue upon receipt of payment.

We also defer revenue when customers have made payments and we have not completed the earnings process. These payments are reflected as liabilities in our financial statements as deferred revenue. In these