

MAXLINEAR INC
Form 10-Q
November 01, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2011

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: 001-34666

MaxLinear, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of

14-1896129
(I.R.S. Employer

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incorporation or organization)

Identification No.)

2051 Palomar Airport Road, Suite 100

Carlsbad, California
(Address of principal executive offices)

92011
(Zip Code)

(760) 692-0711

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 21, 2011, the registrant has 18,605,585 shares of Class A common stock, par value \$0.0001, and 14,266,387 shares of Class B common stock, par value \$0.0001, outstanding.

Table of Contents

MAXLINEAR, INC.

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

	Page
Part I	3
Item 1.	3
	3
	4
	5
	6
Item 2.	15
Item 3.	22
Item 4.	22
Part II	24
Item 1.	24
Item 1A.	24
Item 2.	41
Item 3.	41
Item 4.	41
Item 5.	41
Item 6.	42

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MAXLINEAR, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except par amounts)**

	September 30, 2011 (unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 43,521	\$ 21,563
Investments, available-for-sale	44,353	72,923
Accounts receivable	8,385	3,047
Inventory	9,228	7,425
Deferred income taxes, prepaid expenses and other current assets	1,486	4,232
Total current assets	106,973	109,190
Property and equipment, net	4,866	4,535
Intangible assets	1,216	980
Deferred income taxes and other long-term assets	108	4,213
Total assets	\$ 113,163	\$ 118,918
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 5,777	\$ 2,877
Deferred revenue and deferred profit	2,497	5,322
Accrued expenses	6,616	1,558
Accrued compensation	2,768	2,145
Amounts due to related party		1,746
Current portion of capital lease obligations	54	98
Total current liabilities	17,712	13,746
Other long-term liabilities	978	257
Capital lease obligations, net of current portion	4	18
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.0001 par value; 25,000 shares authorized, no shares issued or outstanding		
Common stock, \$0.0001 par value; 550,000 shares authorized, no shares issued or outstanding		
Class A common stock, \$0.0001 par value; 500,000 shares authorized, 18,572 and 13,170 shares issued and outstanding at September 30, 2011 (unaudited) and December 31, 2010, respectively	2	1
Class B common stock, \$0.0001 par value; 500,000 shares authorized, 14,266 and 18,720 shares issued and outstanding at September 30, 2011 (unaudited) and December 31, 2010, respectively	1	2
Additional paid-in capital	123,471	116,512
Accumulated other comprehensive income (loss)	(10)	45
Accumulated deficit	(28,995)	(11,663)
Total stockholders equity	94,469	104,897

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Total liabilities and stockholders' equity	\$ 113,163	\$ 118,918
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See accompanying notes.

Table of Contents**MAXLINEAR, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net revenue	\$ 17,639	\$ 18,523	\$ 52,641	\$ 52,836
Cost of net revenue	6,307	5,487	19,043	16,116
Gross profit	11,332	13,036	33,598	36,720
Operating expenses:				
Research and development	9,456	7,298	29,977	20,299
Selling, general and administrative	5,033	4,120	14,329	11,841
Total operating expenses	14,489	11,418	44,306	32,140
Income (loss) from operations	(3,157)	1,618	(10,708)	4,580
Interest income	63	106	234	221
Interest expense	(32)	(6)	(38)	(22)
Other expense, net	(35)	(20)	(110)	(29)
Income (loss) before income taxes	(3,161)	1,698	(10,622)	4,750
Provision for income taxes	8,227	346	6,710	298
Net income (loss)	(11,388)	1,352	(17,332)	4,452
Net income allocable to preferred stockholders				(1,215)
Net income (loss) attributable to common stockholders	\$ (11,388)	\$ 1,352	\$ (17,332)	\$ 3,237
Net income (loss) per share attributable to common stockholders ⁽¹⁾ :				
Basic	\$ (0.35)	\$ 0.04	\$ (0.53)	\$ 0.13
Diluted	\$ (0.35)	\$ 0.04	\$ (0.53)	\$ 0.12
Shares used to compute net income (loss) per share attributable to common stockholders:				
Basic	32,743	31,264	32,410	25,100
Diluted	32,743	34,036	32,410	27,960

⁽¹⁾ As a result of the conversion of the Company's preferred stock into 14,526 shares of its Class B common stock immediately prior to the completion of the Company's initial public offering in March 2010, there is a lack of comparability in the basic and diluted net income (loss) per share amounts between the nine-month periods presented herein and any historical or future periods. See accompanying notes.

Table of Contents**MAXLINEAR, INC.****UNDAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	Nine Months Ended September 30,	
	2011	2010
Operating Activities		
Net income (loss)	\$ (17,332)	\$ 4,452
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Amortization and depreciation	2,294	1,282
Amortization of investment premiums, net	894	813
Stock-based compensation	5,206	2,977
Deferred income taxes	6,668	
Gain on sale of available-for-sale securities	(9)	
Write down of property and equipment	29	33
Changes in operating assets and liabilities:		
Accounts receivable	(5,338)	5,170
Inventory	(1,803)	(3,507)
Prepaid and other assets	183	(1,067)
Accounts payable and accrued expenses	7,263	(3,166)
Amounts due to related party	(1,746)	(200)
Accrued compensation	623	673
Deferred revenue and deferred profit	(2,825)	680
Other long-term liabilities	721	163
Net cash provided by (used in) operating activities	(5,172)	8,303
Investing Activities		
Purchases of property and equipment	(2,187)	(2,100)
Purchases of intangibles		(1,135)
Purchases of available-for-sale securities	(70,967)	(97,596)
Maturities of available-for-sale securities	98,575	20,257
Net cash provided by (used in) investing activities	25,421	(80,574)
Financing Activities		
Payments on capital leases	(58)	(93)
Proceeds from issuance of common stock	1,755	183
Proceeds from initial public offering, net of costs		75,550
Net cash provided by financing activities	1,697	75,640
Effect of exchange rate changes on cash and cash equivalents	12	
Increase in cash and cash equivalents	21,958	3,369
Cash and cash equivalents at beginning of period	21,563	17,921
Cash and cash equivalents at end of period	\$ 43,521	\$ 21,290
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 8	\$ 22

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Cash paid for taxes	\$	\$	275
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Supplemental disclosures of non-cash investing and financing information:

Unrealized gain (loss) on available-for-sale securities	\$	(36)	\$	65
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See accompanying notes.

Table of Contents

MAXLINEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts and percentage data)

1. Organization and Summary of Significant Accounting Policies

Description of Business

MaxLinear, Inc. (the Company) was incorporated in Delaware in September 2003. The Company is a provider of highly integrated, mixed-signal semiconductor solutions for broadband communication applications whose customers include module makers, original equipment manufacturers (OEMs), and original design manufacturers (ODMs), who incorporate the Company's products in a wide range of stationary and mobile electronic devices including mobile handsets, cable and terrestrial set top boxes, televisions, personal computers and netbooks and automotive entertainment applications. The Company is a fabless semiconductor company focusing its resources on the design, sales and marketing of its products.

Initial Public Offering

In March 2010, the Company completed the initial public offering, or IPO, of its Class A common stock in which it sold and issued 5,920 shares of Class A common stock at an issue price of \$14.00 per share. The Company raised a total of \$82.9 million in gross proceeds in the IPO, or approximately \$72.9 million in net proceeds after deducting underwriting discounts and commissions of \$5.8 million and other offering costs of \$4.2 million. Immediately prior to the closing of the IPO, all shares of the Company's then-outstanding convertible preferred stock outstanding automatically converted into 14,526 shares of Class B common stock.

Basis of Presentation and Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of MaxLinear, Inc. and its wholly owned subsidiaries. All intercompany transactions and investments have been eliminated in consolidation.

Transactions with an affiliate of one of the Company's stockholders identified as related-party transactions in the prior year were not deemed to be related-party transactions for the three and nine months ended September 30, 2011 as the stockholder is no longer a beneficial owner of the Company.

The Company has prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto for the year ended December 31, 2010, included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission (SEC) on February 8, 2011.

Use of Estimates

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

Revenue Recognition

Revenue is generated from sales of the Company's integrated circuits. The Company recognizes revenue when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed or determinable and

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4) collectibility is reasonably assured. Title to product transfers to customers either when it is shipped to or received by the customer, based on the terms of the specific agreement with the customer.

Revenue is recorded based on the facts at the time of sale. Amounts that are not probable of collection once the product has shipped and title has transferred to the customer are deferred until the amount that is probable of collection can be determined. Items that are considered when determining the amounts that will be ultimately collected 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 extended payment terms granted to a customer.

Table of Contents

MAXLINEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts and percentage data)

For distributor transactions, revenue is not recognized until product is shipped to the end customer and the amount that will ultimately be collected is determinable. Upon shipment of product to these distributors, title to the inventory transfers to the distributor and the distributor is invoiced, generally with 30 day terms. On shipments where revenue is not recognized, the Company records a trade receivable for the selling price as there is a legally enforceable right to payment, relieving the inventory for the carrying value of goods shipped since legal title has passed to the distributor, and records the corresponding gross profit in the consolidated balance sheet as a component of deferred revenue and deferred profit, representing the difference between the receivable recorded and the cost of inventory shipped.

The Company records reductions in revenue for estimated pricing adjustments related to price protection and unit rebate agreements, in the same period that the related revenue is recorded. Price protection pricing adjustments are recorded at the time of sale as a reduction to revenue and an increase in the Company's accrued liabilities. The Company may enter into unit rebate agreements with end customers based on volume purchases. The Company estimates that all of the unit rebates will be achieved based on the history of these programs, reduces the average selling price of the product sold under the rebate program and defers revenue for the difference between the amount billed to the customer and the adjusted average selling price. Once the targeted level is achieved, the deferred revenue is recognized as revenue as rebated products are shipped to the end customer. Deferred revenue associated with rebate programs is included in deferred revenue and deferred profit in the consolidated balance sheet.

Recent Accounting Pronouncements

Effective January 1, 2011, the Company adopted the deferred provisions of the Financial Accounting Standards Board's (FASB) updated guidance related to fair value measurements and disclosures, which require disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The Company's adoption of the deferred provisions did not have an impact on its consolidated financial statements.

Effective January 1, 2011, the Company adopted the FASB's new standards for revenue recognition with multiple deliverables. These new standards impact the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. Additionally, these new standards modify the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. The Company's adoption of the new standards did not have an impact on its consolidated financial statements.

Effective January 1, 2011, the Company adopted the FASB's new standards for the accounting for certain revenue arrangements that include software elements. These new standards amend the scope of pre-existing software revenue guidance by removing from the guidance non-software components of tangible products and certain software components of tangible products. The Company's adoption of the new standards did not have an impact on its consolidated financial statements.

In May 2011, the FASB issued updated guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for the Company beginning in the first quarter of fiscal year 2012. The Company does not expect this additional guidance to significantly impact its consolidated financial statements.

In June 2011, the FASB issued a new standard regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation on the face of the financial statements of reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. This new standard is effective on a retrospective basis for the Company beginning in the first quarter of fiscal year 2012, however early adoption is permitted. The Company does not expect this new standard to significantly impact its consolidated financial statements.

2. Net Income (Loss) Per Share

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Prior to the Company's IPO, net income per share was computed as required by provisions within the accounting standard for earnings per share, which established guidance regarding the computation of earnings per share, or EPS, by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the Company. The accounting standard for earnings per share requires earnings for the period, after deduction of preferred stock dividends, to be allocated between the common and preferred stockholders based on their respective rights to receive dividends, whether or not declared. Basic net income per share is then calculated by dividing income attributable to common stockholders (after

Table of Contents**MAXLINEAR, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except per share amounts and percentage data)**

the reduction for any preferred stock dividends assuming current income for the period had been distributed) by the weighted-average number of shares of common stock outstanding for the period, net of shares subject to repurchase by the Company. The accounting standard for earnings per share does not require the presentation of basic and diluted net income per share for securities other than common stock; therefore, the following net income (loss) per share amounts only pertain to the Company's common stock. The Company calculated diluted net income per share under the as-if-converted method unless the conversion of the preferred stock was anti-dilutive to basic net income per share. To the extent preferred stock was anti-dilutive, the Company calculated diluted net income per share under the two-class method.

Subsequent to the Company's IPO, net income per share continued to be computed as required by provisions within the accounting standard for earnings per share. Basic EPS is calculated by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding for the period and the weighted-average number of dilutive common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, common stock options and restricted stock units are considered to be common stock equivalents and are only included in the calculation of diluted EPS when their effect is dilutive.

Subsequent to its IPO, the Company has two classes of stock outstanding, Class A common stock and Class B common stock. The economic rights of the Class A common stock and Class B common stock, including rights in connection with dividends and payments upon a liquidation or merger are identical, and the Class A common stock and Class B common stock will be treated equally, identically and ratably, unless differential treatment is approved by the Class A common stock and Class B common stock, each voting separately as a class. The Company computes basic earnings per share by dividing net income attributable to common stockholders by the weighted average number of shares of Class A and Class B common stock outstanding during the period. For diluted earnings per share, the Company divides net income attributable to common stockholders by the sum of the weighted average number of shares of Class A and Class B common stock outstanding and the potential number of shares of dilutive Class A and Class B common stock outstanding during the period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Historical				
Numerator:				
Net income (loss)	\$ (11,388)	\$ 1,352	\$ (17,332)	\$ 4,452
Net income allocable to preferred stockholders				(1,215)
Net income (loss) attributable to common stockholders	\$ (11,388)	\$ 1,352	\$ (17,332)	\$ 3,237
Denominator:				
Weighted average common shares outstanding - basic	32,743	31,264	32,410	25,100
Dilutive common stock equivalents		2,772		2,860
Weighted average common shares outstanding - diluted	32,743	34,036	32,410	27,960
Net income (loss) per share attributable to common stockholders:				
Basic	\$ (0.35)	\$ 0.04	\$ (0.53)	\$ 0.13
Diluted	\$ (0.35)	\$ 0.04	\$ (0.53)	\$ 0.12

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The Company excluded 5,778 and 4,288 common stock equivalents resulting from outstanding equity awards for the three and nine months ended September 30, 2011, respectively, from the calculation of diluted net income (loss) per share due to their anti-dilutive nature. The Company excluded 842 and 728 common stock equivalents resulting from outstanding equity awards for the three and nine months ended September 30, 2010, respectively, from the calculation of diluted net income (loss) per share due to their anti-dilutive nature.

Table of Contents**MAXLINEAR, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except per share amounts and percentage data)****3. Financial Instruments**

The composition of financial instruments is as follows:

	Amortized Cost	September 30, 2011 Gross Unrealized		Fair Value
		Gains	Losses	
Money market funds	\$ 21,030	\$	\$	\$ 21,030
Government debt securities	8,282			8,282
Corporate debt securities	42,906		(36)	42,870
	72,218		(36)	72,182
Less amounts included in cash and cash equivalents	(27,829)			(27,829)
	\$ 44,389	\$	\$ (36)	\$ 44,353

	Amortized Cost	December 31, 2010 Gross Unrealized		Fair Value
		Gains	Losses	
Money market funds	\$ 208	\$	\$	\$ 208
Government debt securities	37,068	12	(3)	37,077
Corporate debt securities	39,316	38	(5)	39,349
	76,592	50	(8)	76,634
Less amounts included in cash and cash equivalents	(3,712)		1	(3,711)
	\$ 72,880	\$ 50	\$ (7)	\$ 72,923

The gross unrealized losses of \$36 at September 30, 2011 represent temporary impairments on corporate debt securities related to multiple issuers, which have been in loss positions for less than 12 consecutive months, and were primarily caused by fluctuations in U.S. interest rates. We have determined that the gross unrealized losses on these investments at September 30, 2011 are temporary in nature. We evaluate securities for other-than-temporary impairment on a quarterly basis. Impairment is evaluated considering numerous factors, and their relative significance varies depending on the situation. Factors considered include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, and our intent and ability to hold the investment in order to allow for an anticipated recovery in fair value.

All of the Company's available-for-sale securities were due within one year as of September 30, 2011.

The fair values of the Company's financial instruments are the amounts that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants and are recorded using a hierarchical disclosure framework based upon the level of subjectivity of the inputs used in measuring assets and liabilities. The levels are described below:

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Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

Table of Contents**MAXLINEAR, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except per share amounts and percentage data)**

The following table presents a summary of the Company's financial instruments that are measured on a recurring basis:

	Fair Value Measurements at September 30, 2011			
	Balance at September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 21,030	\$ 21,030	\$	\$
Government debt securities	8,282		8,282	
Corporate debt securities	42,870		42,870	
	\$ 72,182	\$ 21,030	\$ 51,152	\$

There were no transfers between Level 1, Level 2 or Level 3 securities in the nine months ended September 30, 2011.

4. Balance Sheet Details

Inventory consists of the following:

	September 30, 2011	December 31, 2010
Work-in-process	\$ 6,329	\$ 5,691
Finished goods	2,899	1,734
	\$ 9,228	\$ 7,425

Property and equipment consist of the following:

	Useful Life (in Years)	September 30, 2011	December 31, 2010
Furniture and fixtures	5	\$ 305	\$ 275
Machinery and equipment	3-5	6,024	4,762
Masks and production equipment	2	3,085	2,486
Software	3	544	543
Leasehold improvements	4-5	405	151
Construction in progress	N/A	92	144
		10,455	8,361

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Less accumulated depreciation and amortization	(5,589)	(3,826)
	\$ 4,866	\$ 4,535

The net book value of property and equipment acquired under capital leases totaled \$39 and \$94 at September 30, 2011 and December 31, 2010, respectively.

Intangible assets consist of the following:

	Weighted Average Amortization Period (in Years)	September 30, 2011	December 31, 2010
Licensed technology	3	\$ 1,865	\$ 1,275
Less accumulated amortization		(649)	(295)
		\$ 1,216	\$ 980

Table of Contents**MAXLINEAR, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except per share amounts and percentage data)**

The following table presents future amortization of the Company's intangible assets at September 30, 2011.

	September 30, 2011
2011	\$ 162
2012	648
2013	275
2014	131
	\$ 1,216

Deferred revenue and deferred profit consist of the following:

	September 30, 2011	December 31, 2010
Deferred revenue - rebates	\$ 80	\$ 492
Deferred revenue - distributor transactions	3,476	6,535
Deferred cost of net revenue - distributor transactions	(1,059)	(1,705)
	\$ 2,497	\$ 5,322

Accrued expenses consist of the following:

	September 30, 2011	December 31, 2010
Accrued software license payments	\$ 180	\$ 362
Accrued technology license payments	2,792	25
Accrued professional fees	561	236
Accrued price protection liability	2,508	456
Other	575	479
	\$ 6,616	\$ 1,558

Other long-term liabilities consist of the following:

	September 30, 2011	December 31, 2010
Accrued technology license payments	\$ 739	\$

Deferred rent	239	257
	\$ 978	\$ 257

5. Commitments and Contingencies

Lease Commitments

During February and August 2011, the Company entered into amendments to its existing operating lease agreement for a research and development facility in Irvine, CA. The amended operating lease calls for an expansion in the amount of space occupied and an extension to April 2016. Future minimum payments under the amended operating lease for the years ending December 31, 2011, 2012, 2013, 2014, 2015 and 2016 are \$100, \$254, \$273, \$284, \$295 and \$113, respectively.

The Company had firm purchase order commitments for the acquisition of inventory as of September 30, 2011 and December 31, 2010 of \$3,969 and \$1,367, respectively.

Table of Contents**MAXLINEAR, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except per share amounts and percentage data)****6. Stock-Based Compensation and Employee Benefit Plans*****Stock-Based Compensation***

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options and employee stock purchase rights granted to employees. The Company calculates the fair value of restricted stock units based on the fair market value of our Class A common stock on the grant date. The weighted-average grant date fair value per share of the restricted stock units granted in the nine months ended September 30, 2011 was \$8.53. No restricted stock units were granted during the nine months ended September 30, 2010.

The fair values of stock options and employee stock purchase rights were estimated at their respective grant date using the following assumptions:

Stock Options

	Nine Months Ended September 30,	
	2011	2010
Weighted-average grant date fair value per share	\$ 4.26	\$ 7.10
Risk-free interest rate	2.01%	2.63%
Dividend yield		
Expected life of options (years)	5.05	6.06
Volatility	51.83%	55.00%

Employee Stock Purchase Rights

	Nine Months Ended September 30,	
	2011	2010
Weighted-average grant date fair value per share	\$ 2.46	\$ 7.04
Risk-free interest rate	0.07%	0.29%
Dividend yield		
Expected life of options (years)	0.50	0.60
Volatility	45.70%	34.11%

The risk-free interest rate assumption was based on the United States Treasury's rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The assumed dividend yield was based on the Company's expectation of not paying dividends in the foreseeable future. The weighted-average expected life of options was calculated using the simplified method as prescribed by guidance provided by the SEC. This decision was based on the lack of relevant historical data due to the Company's limited historical experience. In addition, due to the Company's limited historical data, the estimated volatility incorporates the historical volatility of comparable companies whose share prices are publicly available.

The Company recognized stock-based compensation in the statements of operations as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cost of net revenue	\$ 15	\$ 23	\$ 38	\$ 56
Research and development	1,308	757	3,014	1,774
Selling, general and administrative	846	447	2,154	1,147
	\$ 2,169	\$ 1,227	\$ 5,206	\$ 2,977

The Company records equity awards issued to non-employees as expense at their fair value over the related service period and periodically revalues the equity awards as they vest. Stock-based compensation expense related to non-employee consultants totaled

Table of Contents

MAXLINEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts and percentage data)

\$40 and \$82 for the three and nine months ended September 30, 2011, respectively. Stock-based compensation expense related to non-employee consultants totaled \$31 and \$158 for the three and nine months ended September 30, 2010, respectively.

Employee Benefit Plans

In connection with the closing of its IPO, the Company's 2010 Equity Incentive Plan, or 2010 Plan, and 2010 Employee Stock Purchase Plan, or ESPP, became effective.

2010 Equity Incentive Plan

The 2010 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance-based stock awards, and other forms of equity compensation, or collectively, stock awards. The exercise price for an incentive or a non-statutory stock option cannot be less than 100% of the fair market value of the Company's Class A common stock on the date of grant. Options granted will generally vest over a four-year period and the term can be from seven to ten years.

On January 1, 2011, 1,276 shares of Class A common stock were automatically added to the shares authorized for issuance under the 2010 Plan pursuant to an evergreen provision contained in the 2010 Plan.

2010 Employee Stock Purchase Plan

The ESPP is implemented through a series of offerings of purchase rights to eligible employees. Generally, all regular employees, including executive officers, employed by the Company may participate in the ESPP and may contribute up to 10% of their earnings, subject to certain limitations, for the purchase of the Company's common stock under the ESPP. Beginning with the offering period commencing in May 2011, employees may contribute up to 15% of their earnings for the purchase of the Company's common stock under the ESPP. Unless otherwise determined by the Company's board of directors, Class A common stock will be purchased for accounts of employees participating in the ESPP at a price per share equal to the lower of (a) 85% of the fair market value of a share of the Company's Class A common stock on the first date of an offering or (b) 85% of the fair market value of a share of the Company's Class A common stock on the date of purchase.

On January 1, 2011, 399 shares of Class A common stock were automatically added to the shares authorized for issuance under the ESPP pursuant to an evergreen provision contained in the ESPP.

7. Income Taxes

As of September 30, 2011, the Company evaluated its net deferred income tax assets, including an assessment of the cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance is required. A significant negative factor in the Company's assessment at September 30, 2011 was the expectation that the Company may be in a three-year historical cumulative loss as of the end of the fourth quarter of fiscal 2011 and through the near term, as profitable quarters in the earlier years are removed from the rolling three-year calculation. After considering the Company's recent history of losses and management's expectation of additional near-term losses, the Company recorded a valuation allowance on its net federal deferred tax assets, with a corresponding charge to its income tax provision, of approximately \$8.2 million in the quarter ended September 30, 2011. In addition, the Company continues to maintain a valuation allowance to offset the California deferred tax assets as realization of such assets does not meet the more-likely-than-not threshold required under accounting guidelines. The Company will continue to assess the need for a valuation allowance on the deferred tax asset by evaluating both positive and negative evidence that may exist.

The provision for income taxes differs from the federal statutory rate primarily due to the establishment of a valuation allowance against the Company's net federal deferred tax asset in the third quarter of 2011. During the three and nine months ended September 30, 2011, the Company's unrecognized tax benefits remained unchanged. The Company does not anticipate its unrecognized tax benefits will change

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significantly over the next 12 months. There were no accrued interest and penalties associated with uncertain tax positions as of September 30, 2011.

Table of Contents**MAXLINEAR, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(in thousands, except per share amounts and percentage data)****8. Comprehensive Income (Loss)**

The components of comprehensive income (loss), net of taxes, are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income (loss)	\$ (11,388)	\$ 1,352	\$ (17,332)	\$ 4,452
Other comprehensive income (loss):				
Unrealized gain (loss) on investments	(50)	117	(77)	65
Foreign currency translation adjustments	7	9	22	9
Total comprehensive income (loss)	\$ (11,431)	\$ 1,478	\$ (17,387)	\$ 4,526

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The information in this management's discussion and analysis of financial condition and results of operations contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are subject to the "safe harbor" created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words "anticipates", "believes", "estimates", "expects", "intends", "may", "plans", "projects", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q and in our other filings with the SEC. We do not assume any obligation to update any forward-looking statements.

Overview

We are a provider of highly integrated, radio-frequency analog and mixed-signal semiconductor solutions for broadband communications applications. Our high performance radio-frequency, or RF, receiver products capture and process digital and analog broadband signals to be decoded for various applications. These products include both RF receivers and RF receiver systems-on-chip, or SoCs, which incorporate our highly integrated radio system architecture and the functionality necessary to demodulate broadband signals. Our current products enable the display of broadband video content in a wide range of electronic devices, including cable and terrestrial set top boxes, digital televisions, mobile handsets, personal computers, netbooks and in-vehicle entertainment devices.

Our net revenue has grown from approximately \$600,000 in fiscal 2006 to \$68.7 million in fiscal 2010. In 2010 and in the nine months ended September 30, 2011, our net revenue was derived from sales of global digital RF receiver products for digital set top box applications, automotive navigation displays, mobile handsets, cable modems and gateways and digital televisions. Our ability to achieve revenue growth in the future will depend, among other factors, on our ability to further penetrate existing markets; our ability to expand our target addressable markets by developing new and innovative products; and our ability to obtain design wins with device manufacturers, in particular manufacturers of set top boxes and cable modems and gateways for the cable industry.

Table of Contents

Substantially all of our sales have been to customers outside the United States. Sales to customers in Asia accounted for 97%, 99% and 97% of net revenue in the years ended December 31, 2010, 2009 and 2008, respectively; 92% and 89% of net revenue in the three and nine months ended September 30, 2011, respectively; and 98% of net revenue in each of the three and nine months ended September 30, 2010, respectively. The majority of our sales to these and other customers are through distributors based in Asia. Although we actually sell the products to, and are paid by, the distributors, we refer to end customers as our customers. Because many of our customers or their OEM manufacturers are located in Asia, we anticipate that a majority of our revenue will continue to come from sales to customers in that region. Although a large percentage of our sales are made to customers in Asia, we believe that a significant number of the systems designed by these customers and incorporating our semiconductor products are then sold to end users outside Asia. For example, we believe revenue generated from sales of our digital terrestrial set top box products during the three and nine months ended September 30, 2011 and the years ended December 31, 2010 and 2009 related principally to sales to Asian set top box manufacturers delivering products into European markets. To date, all of our sales have been denominated in United States dollars.

A significant portion of our net revenue has historically been generated by a limited number of customers. In the three months ended September 30, 2011, two of our customers accounted for 12% and 11%, respectively, of our net revenue, and our ten largest customers collectively accounted for 64% of our net revenue. In the nine months ended September 30, 2011, one customer accounted for 16% of our net revenue, and our ten largest customers collectively accounted for 57% of our net revenue. For certain customers, we sell multiple products into disparate end user applications such as modules for televisions, in-vehicle or automotive applications and mobile handsets.

Our business depends on winning competitive bid selection processes, known as design wins, to develop semiconductors for use in our customers' products. These selection processes are typically lengthy, and as a result, our sales cycles will vary based on the specific market served, whether the design-win is with an existing or a new customer and whether our product being designed in our customer's device is a first generation or subsequent generation product. Our customers' products can be complex and, if our engagement results in a design win, can require significant time to define, design and result in volume production. Because the sales cycle for our products is long, we can incur significant design and development expenditures in circumstances where we do not ultimately recognize any revenue. We do not have any long-term purchase commitments with any of our customers, all of whom purchase our products on a purchase order basis. Once one of our products is incorporated into a customer's design, however, we believe that our product is likely to remain a component of the customer's product for its life cycle because of the time and expense associated with redesigning the product or substituting an alternative chip. Product life cycles in our target markets will vary by application. For example, in the digital set top box market a design-in can have a product life cycle of 18 to 24 months. In the automotive sector, the product life cycle of a design-in can range from 36 to 60 months. In the mobile television sector, the product life cycle can range from 12 to 36 months.

In March 2010, we completed the initial public offering, or IPO, of our Class A common stock in which we sold and issued 5,919,528 shares of Class A common stock, including 771,469 shares related to the exercise of the underwriters' over-allotment, at an issue price of \$14.00 per share. We raised a total of \$82.9 million in gross proceeds in the IPO, or approximately \$72.9 million in net proceeds after deducting underwriting discounts and commissions of \$5.8 million and other offering costs of \$4.2 million. Immediately prior to the closing of the IPO, all shares of our then-outstanding convertible preferred stock outstanding automatically converted into 14,526,083 shares of our Class B common stock.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our financial statements which are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We continually evaluate our estimates and judgments, the most critical of which are those related to revenue recognition, allowance for doubtful accounts, inventory valuation, income taxes and stock-based compensation. We base our estimates and judgments on historical experience and other factors that we believe to be reasonable under the circumstances. Materially different results can occur as circumstances change and additional information becomes known.

There were no significant changes during the quarter ended September 30, 2011 to the items that we disclosed as our critical accounting policies and estimates in Note 1 to our consolidated financial statements for the year ended December 31, 2010 contained in the Annual Report on Form 10-K filed with the SEC on February 8, 2011.

Table of Contents

Results of Operations

The following describes the line items set forth in our condensed consolidated statements of operations.

Net Revenue. Net revenue is generated from sales of our RF receivers and RF receiver SoCs. A majority of our end customers purchase products indirectly from us through distributors. Although we actually sell the products to, and are paid by, the distributors, we refer to these end customers as our customers.

Cost of Net Revenue. Cost of net revenue includes the cost of finished silicon wafers processed by third-party foundries; costs associated with our outsourced packaging and assembly, test and shipping; costs of personnel, including stock-based compensation, and equipment associated with manufacturing support, logistics and quality assurance; amortization of certain production mask costs; cost of production load boards and sockets; and an allocated portion of our occupancy costs.

Research and Development. Research and development expense includes personnel-related expenses, including stock-based compensation, new product engineering mask costs, prototype integrated circuit packaging and test costs, computer-aided design software license costs, intellectual property license costs, reference design development costs, development testing and evaluation costs, depreciation expense and allocated occupancy costs. Research and development activities include the design of new products, refinement of existing products and design of test methodologies to ensure compliance with required specifications. All research and development costs are expensed as incurred.

Selling, General and Administrative. Selling, general and administrative expense includes personnel-related expenses, including stock-based compensation, distributor and other third-party sales commissions, field application engineering support, travel costs, professional and consulting fees, legal fees, depreciation expense and allocated occupancy costs.

Interest Income. Interest income consists of interest earned on our cash, cash equivalents and investment balances.

Interest Expense. Interest expense consists primarily of imputed interest on i) the purchase of licensed technology and ii) property and equipment capital leases.

Other Income (Expense). Other income (expense) generally consists of income (expense) generated from minor non-operating transactions.

Provision for Income Taxes. We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expenses for tax and financial statement purposes and the realizability of assets in future years.

Table of Contents**Comparison of the Three and Nine Months Ended September 30, 2011 and 2010**

The following table presents a comparison of each line item in the condensed consolidated statements of operations as a percentage of revenue for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net revenue	100%	100%	100%	100%
Cost of net revenue	36	30	36	31
Gross profit	64	70	64	69
Operating expenses:				
Research and development	54	39	57	38
Selling, general and administrative	28	22	27	22
Total operating expenses	82	61	84	60
Income (loss) from operations	(18)	9	(20)	9
Interest and other income (expense)				
Income (loss) before income taxes	(18)	9	(20)	9
Provision for income taxes	47	2	13	1
Net income (loss)	(65)%	7%	(33)%	8%

Net Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	% Change	2011	2010	% Change
Net revenue	\$ 17,639	\$ 18,523	(5)%	\$ 52,641	\$ 52,836	

Our net revenue was \$17.6 million in the three months ended September 30, 2011, as compared to \$18.5 million in the three months ended September 30, 2010, a decrease of \$0.9 million or 5%. Our net revenue was \$52.6 million in the nine months ended September 30, 2011, as compared to \$52.8 million in the nine months ended September 30, 2010, a decrease of \$0.2 million. The decreases in net revenue in the three and nine months ended September 30, 2011, as compared to the three and nine months ended September 30, 2010, were due to strong increases in cable products, more than offset by decreases in revenue derived from consumer set-top box and mobile handset applications. We expect sales of our cable products to account for a substantial portion of our revenue in the remainder of 2011. Demand for our products will depend on several factors, including the rate of the worldwide transition from analog-to-digital terrestrial and cable television broadcast and the growth in demand, if any, for high speed broadband connectivity and multimedia content and services.

Table of Contents*Cost of Net Revenue and Gross Profit*

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011 (dollars in thousands)	2010	% Change	2011 (dollars in thousands)	2010	% Change
Cost of net revenue	\$ 6,307	\$ 5,487	15%	\$ 19,043	\$ 16,116	18%
% of net revenue	36%	30%		36%	31%	
Gross profit	11,332	13,036	(13)%	33,598	36,720	(9)%
% of net revenue	64%	70%		64%	69%	

Cost of net revenue increased by \$0.8 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010. Gross profit decreased by \$1.7 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010, reflecting a decrease in gross profit as a percentage of revenue from 70% to 64%. Cost of net revenue increased by \$2.9 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. Gross profit decreased by \$3.1 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010, reflecting a decrease in gross profit as a percentage of revenue from 69% to 64%. The decreases in both absolute gross profit and the gross profit percentage of net revenue were primarily due to decreases in average selling prices of several products for which there were limited offsets or decreases in related manufacturing costs. Changes in product mix driven by significant declines in our higher margin mobile handset applications also contributed to the declines. We currently expect that gross profit percentage will fluctuate from quarter to quarter in the future based on changes in product mix, average selling prices, and manufacturing costs.

Research and Development

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011 (dollars in thousands)	2010	% Change	2011 (dollars in thousands)	2010	% Change
Research and development	\$ 9,456	\$ 7,298	30%	\$ 29,977	\$ 20,299	48%
% of net revenue	54%	39%		57%	38%	

Research and development expense for the three months ended September 30, 2011 was \$9.5 million, an increase of \$2.2 million, or 30%, from the three months ended September 30, 2010. Research and development expense for the nine months ended September 30, 2011 was \$30.0 million, an increase of \$9.7 million, or 48%, from the nine months ended September 30, 2010. These year-over-year increases were primarily attributable to an increase in the number of new RF receiver SoC product development and existing product enhancement initiatives, including a new initiative to develop MoCA[®] (Multimedia over Coax Alliance) solutions. Investments in intellectual property and software related to connectivity technologies, including the acquisition of certain MoCA[®] intellectual property and connectivity-related software intellectual property licenses, increased \$0.4 million and \$3.7 million for the three and nine months ended September 30, 2011, respectively. Salary and benefits expense (including stock-based compensation) increased \$1.4 million and \$4.1 million for the three and nine months ended September 30, 2011, respectively. The increase in salary and benefits is primarily due to an increase in our average full-time-equivalent headcount compared to the same three and nine month periods of the prior year. Also contributing to the increases compared to prior periods were additional expenses for computer-aided design and related software license costs, new product engineering mask costs, supplies, travel and other costs. Entering into new technology licenses is a strategic decision made by management on a case by case basis. We cannot predict whether we will acquire more of these types of licenses, or the magnitude or timing of any such license acquisitions. Absent these types of licensing events, we expect our research and development expenses to increase in absolute dollars as we continue to focus on expanding our product portfolio and enhancing existing products.

Table of Contents*Selling, General and Administrative*

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	% Change	2011	2010	% Change
	(dollars in thousands)			(dollars in thousands)		
Selling, general and administrative	\$ 5,033	\$ 4,120	22%	\$ 14,329	\$ 11,841	21%
% of net revenue	28%	22%		27%	22%	

Selling, general and administrative expense for the three months ended September 30, 2011 was \$5.0 million, an increase of \$0.9 million, or 22%, from the three months ended September 30, 2010. Selling, general and administrative expense for the nine months ended September 30, 2011 was \$14.3 million, an increase of \$2.5 million, or 21%, from the nine months ended September 30, 2010. These year-over-year increases were primarily attributable to costs associated with the need for larger scale operations and increased expenses associated with regulatory compliance initiatives, including compliance with the Sarbanes-Oxley Act. Specifically, the increases were attributable in part to an additional \$0.6 million and 1.7 million of incremental salary and benefit expenses (including stock-based compensation) in the three and nine months ended September 30, 2011, respectively. Also contributing to the increases were incremental legal, accounting and other professional expenses, consulting expenses, travel-related costs, and occupancy expenses. We expect selling, general and administrative expenses to increase in absolute dollars in the future as we expand our sales and marketing organization to enable expansion into existing and new markets and as we continue to build our international administrative infrastructure.

Interest and Other Income (Expense)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest income	\$ 63	\$ 106	\$ 234	\$ 221
Interest expense	(32)	(6)	(38)	(22)
Other expense, net	(35)	(20)	(110)	(29)

Interest income decreased in the three months ended September 30, 2011 compared to the three months ended September 30, 2010 due to lower investment balances, principally due to a change in the composition of cash equivalents and investments. Interest income increased in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 due to higher cash and investment balances, principally due to the investment of the proceeds from our March 2010 IPO.

Interest expense increased in the three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010 related to an accrued technology license agreement with extended payment terms.

Other expense, net increased in the three months ended September 30, 2011 compared to the three months ended September 30, 2010 due to increased losses on foreign currency transactions and investment management fees. Other expense, net increased in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 due to increased losses on foreign currency transactions, investment management fees and lease settlement charges.

Provision for Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Provision for income taxes	\$ 8,227	\$ 346	\$ 6,710	\$ 298

The provision for income taxes for the three months ended September 30, 2011 was \$8.2 million or approximately (260.3)% of pre-tax loss compared to \$346 for the three months ended September 30, 2010. The provision for income taxes for the nine months ended September 30, 2011 was \$6.7 million or approximately (63.2)% of pre-tax loss compared to \$298 for the nine months ended September 30, 2010. The increase in the effective tax rate in the current year is primarily due to the establishment of the valuation allowance on the net federal deferred tax asset in

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the third quarter of 2011. As of September 30, 2011, we evaluated our net deferred income tax assets, including an assessment of the cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance is required. A significant negative factor in our assessment at September 30, 2011 was the expectation that we may be in a three-year historical cumulative loss as of the end of the fourth quarter of fiscal 2011 and through the near term, as profitable quarters in the earlier years are removed from the rolling three-year calculation. After considering our recent history of losses and management's expectation of additional near-term losses, we recorded a valuation allowance on our net federal deferred tax assets, with a corresponding charge to our income tax provision, of approximately \$8.2 million in the quarter ended September 30, 2011. In addition, we continue to maintain a valuation allowance to offset the California deferred tax assets as realization of such assets does not meet the more-likely-than-not threshold required under accounting guidelines. We will continue to assess the need for a valuation allowance on the deferred tax asset by evaluating both positive and negative evidence that may exist.

Table of Contents***Liquidity and Capital Resources***

In March 2010, we received net proceeds from our IPO of approximately \$72.9 million (after underwriters' discounts of \$5.8 million and additional offering related costs of approximately \$4.2 million). Prior to the IPO, our primary sources of cash were, historically, proceeds from issuances of convertible preferred stock and cash collections from customers. As of September 30, 2011, we had cash and cash equivalents of \$43.5 million, investments of \$44.4 million, and net accounts receivable of \$8.4 million.

Following is a summary of our working capital and cash and cash equivalents as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
	(in thousands)	
Working capital	\$ 89,261	\$ 95,444
Cash and cash equivalents	43,521	21,563

Cash Flows from Operating Activities

Net cash used in operating activities was \$5.2 million for the nine months ended September 30, 2011. Net cash used in operating activities primarily consisted of a net loss of \$17.3 million and \$2.9 million in changes in operating assets and liabilities, offset in part by \$15.0 million in non-cash operating expenses. Included in the changes in operating assets and liabilities was a \$5.3 million increase in accounts receivable due to significantly greater shipments in the last month of the quarter ended September 30, 2011 compared to the last month of the quarter ended December 31, 2010 and an increase in our accounts payable and accrued expenses related to our accrued technology license payments. Non-cash items included in net loss for the nine months ended September 30, 2011 included depreciation and amortization expense of \$2.3 million, amortization of investment premiums, net of \$0.9 million, stock-based compensation of \$5.2 million and a decrease in deferred income taxes of \$6.6 million. Net cash provided by operating activities was \$8.3 million for the nine months ended September 30, 2010. Net cash provided by operating activities primarily consisted of \$4.5 million in net income plus \$5.1 million in non-cash operating expenses less \$1.3 million in net cash used by changes in operating assets and liabilities. Non-cash items included in net income for the nine months ended September 30, 2010 included depreciation and amortization expense of \$1.3 million, amortization of investment premiums, net of \$0.8 million and stock-based compensation of \$3.0 million.

Cash Flows from Investing Activities

Net cash provided by investing activities was \$25.4 million for the nine months ended September 30, 2011. Net cash used in investing activities consisted of \$71.0 million in purchases of securities and \$2.2 million in purchases of property and equipment, offset by \$98.6 million in maturities of securities. Net cash used in investing activities was \$80.6 million for the nine months ended September 30, 2010. Net cash used in investing activities consisted of \$97.6 million in purchases of securities, \$2.1 million in purchases of property and equipment and \$1.1 million in purchases of intangibles, offset by \$20.2 million in maturities of securities.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$1.7 million for the nine months ended September 30, 2011. Net cash provided by financing activities consisted primarily of proceeds from issuance of common stock of \$1.8 million offset by payments on capital leases of \$0.1 million. Net cash provided by financing activities was \$75.6 million for the nine months ended September 30, 2010. Net cash provided by financing activities was primarily due to the net cash provided from our IPO of \$75.6 million.

We believe that our \$43.5 million of cash and cash equivalents and \$44.4 million in investments at September 30, 2011, and expected cash flow from operations will be sufficient to fund our projected operating requirements for at least the next twelve months. However, we may need to raise additional capital or incur additional indebtedness to continue to fund our operations in the future. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our engineering, sales and marketing activities, the timing and extent of our expansion into new territories, the timing of introductions of new products and enhancements to existing products, the continuing market acceptance of our products and potential material investments in, or acquisitions of, complementary businesses, services or technologies. Additional funds may not be available on terms favorable to us or at all. If we are unable to raise additional funds when needed, we may not be able to sustain our operations.

Warranties and Indemnifications

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In connection with the sale of products in the ordinary course of business, we often make representations affirming, among other things, that our products do not infringe on the intellectual property rights of others, and agree to indemnify customers against third-party claims for such infringement. Further, our by-laws require us to indemnify our officers and directors against any action that may

Table of Contents

arise out of their services in that capacity, and we have also entered into indemnification agreements with respect to all of our directors and certain controlling persons. We have not been subject to any material liabilities under such provisions and therefore believe that our exposure for these indemnification obligations is minimal. Accordingly, we have no liabilities recorded for these indemnity agreements as of September 30, 2011.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, or SPEs, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of September 30, 2011, we were not involved in any unconsolidated SPE transactions.

Contractual Obligations

There have been no material changes, outside of the ordinary course of business, in our outstanding contractual obligations from those disclosed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as contained in our Annual Report on Form 10-K filed by the Company with the SEC on February 8, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Currency Risk

To date, our international customer and vendor agreements have been denominated almost exclusively in United States dollars. Accordingly, we have limited exposure to foreign currency exchange rates and do not enter into foreign currency hedging transactions. The functional currency of certain foreign subsidiaries is the local currency. Accordingly, the effects of exchange rate fluctuations on the net assets of these foreign subsidiaries' operations are accounted for as translation gains or losses in accumulated other comprehensive income within stockholders' equity. We do not believe that a change of 10% in such foreign currency exchange rates would have a material impact on our financial position or results of operations.

Interest Rate Risk

We had cash of \$43.5 million at September 30, 2011, which was held for working capital purposes. We do not enter into investments for trading or speculative purposes. We do not believe that we have any material exposure to changes in the fair value of these investments as a result of changes in interest rates due to their short-term nature. Declines in interest rates, however, will reduce future investment income.

Investments Risk

Our investments, consisting of U.S. Treasury and agency obligations and corporate notes and bonds, are stated at cost, adjusted for amortization of premiums and discounts to maturity. In the event that there are differences between fair value and cost in any of our available-for-sale securities, unrealized gains and losses on these investments are reported as a separate component of accumulated other comprehensive income (loss).

Investments in fixed rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to rising interest rates. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as

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appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and no evaluation of controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Table of Contents

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, prior to filing this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer, principal financial officer and principal accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report. Based on their evaluation, our principal executive officer, principal financial officer and principal accounting officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Changes in Internal Control over Financial Reporting

An evaluation was performed under the supervision and with the participation of our management, including our principal executive officer, principal financial officer and principal accounting officer, to determine whether any change in our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We did not identify any change in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are subject to threats of litigation or actual litigation in the ordinary course of business, some of which may be material. We believe that there are no currently pending matters that, if determined adversely to us, would have a material effect on our business or that would not be covered by our existing liability insurance maintained by us.

ITEM 1A. RISK FACTORS

This Quarterly Report on Form 10-Q, or Form 10-Q, including any information incorporated by reference herein, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, referred to as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act. In some cases, you can identify forward-looking statements by terms such as may, will, should, expect, plan, intend, forecast, anticipate, believe, estimate, predict, potential, continue or the negative of these terms or other comparable terminology. The forward-looking statements contained in this Form 10-Q involve known and unknown risks, uncertainties and situations that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These factors include those listed below in this Item 1A and those discussed elsewhere in this Form 10-Q. We encourage investors to review these factors carefully. We may from time to time make additional written and oral forward-looking statements, including statements contained in our filings with the SEC. However, we do not undertake to update any forward-looking statement that may be made from time to time by or on behalf of us.

Before you invest in our securities, you should be aware that our business faces numerous financial and market risks, including those described below, as well as general economic and business risks. The following discussion provides information concerning the material risks and uncertainties that we have identified and believe may adversely affect our business, our financial condition and our results of operations. Before you decide whether to invest in our securities, you should carefully consider these risks and uncertainties, together with all of the other information included in this Quarterly Report on Form 10-Q, the Annual Report on Form 10-K we filed on February 8, 2011, and in our other public filings.

Risks Related to Our Business

We face intense competition and expect competition to increase in the future, which could have an adverse effect on our revenue, revenue growth rate, if any, and market share.

The global semiconductor market in general, and the RF receiver market in particular, are highly competitive. We compete in different target markets to various degrees on the basis of a number of principal competitive factors, including our products' performance, features and functionality, energy efficiency, size, ease of system design, customer support, product roadmap, reputation, reliability and price, as well as on the basis of our customer support, the quality of our product roadmap and our reputation. We expect competition to increase and intensify as more and larger semiconductor companies as well as the internal resources of large, integrated original equipment manufacturers, or OEMs, enter our markets. Increased competition could result in price pressure, reduced profitability and loss of market share, any of which could materially and adversely affect our business, revenue, revenue growth rates and operating results.

As our products are integrated into a variety of stationary and mobile electronic devices, we compete with suppliers of both can tuners and traditional silicon RF receivers. Our competitors range from large, international companies offering a wide range of semiconductor products to smaller companies specializing in narrow markets and internal engineering groups within mobile device, television and STB manufacturers, some of which may be our customers. Our primary competitors include Broadcom Corporation, Entropic Communications, Inc., Maxim Integrated Products, Inc., Newport Media Inc., NXP B.V., Silicon Laboratories Inc. and Zoran Corporation. We expect competition in the markets in which we participate to increase in the future as existing competitors improve or expand their product offerings. In addition, we believe that a number of other public and private companies are in the process of developing competing products for digital television and other broadband communication applications. Because our products often are building block semiconductors which provide functions that in some cases can be integrated into more complex integrated circuits, we also face competition from manufacturers of integrated circuits, some of which may be existing customers that develop their own integrated circuit products.

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Our ability to compete successfully depends on elements both within and outside of our control, including industry and general economic trends. During past periods of downturns in our industry, competition in the markets in which we operate intensified as manufacturers of semiconductors reduced prices in order to combat production overcapacity and high inventory levels. Many of our competitors have substantially greater financial and other resources with which to withstand similar adverse economic or market

Table of Contents

conditions in the future. Moreover, the competitive landscape is changing as a result of consolidation within our industry as some of our competitors have merged with or been acquired by other competitors, and other competitors have begun to collaborate with each other. These developments may materially and adversely affect our current and future target markets and our ability to compete successfully in those markets.

We depend on a limited number of customers for a substantial portion of our revenue, and the loss of, or a significant reduction in orders from, one or more of our major customers could have a material adverse effect on our revenue and operating results.

In the three months ended September 30, 2011, two of our customers accounted for 12% and 11%, respectively, of our net revenue, and our ten largest customers collectively accounted for 64% of our net revenue. In the nine months ended September 30, 2011, one customer accounted for 16% of our net revenue, and our ten largest customers collectively accounted for 57% of our net revenue. During the year ended December 31, 2010, Panasonic and Toshiba accounted for 16% and 10%, respectively, of our net revenue, and our ten largest customers collectively accounted for 71% of our net revenue. Our operating results for the foreseeable future will continue to depend on sales to a relatively small number of customers and on the ability of these customers to sell products that incorporate our RF receivers or RF receiver SoCs. In the future, these customers may decide not to purchase our products at all, may purchase fewer products than they did in the past, or may defer or cancel purchases or otherwise alter their purchasing patterns. Factors that could affect our revenue from these large customers include the following:

substantially all of our sales to date have been made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty (as occurred in the third and fourth quarters of fiscal 2010); and

some of our customers have sought or are seeking relationships with current or potential competitors which may affect their purchasing decisions.

In addition, delays in development could impair our relationships with our strategic customers and negatively impact sales of the products under development. Moreover, it is possible that our customers may develop their own product or adopt a competitor's solution for products that they currently buy from us. If that happens, our sales would decline and our business, financial condition and results of operations could be materially and adversely affected.

Our relationships with some customers may deter other potential customers who compete with these customers from buying our products. To attract new customers or retain existing customers, we may offer these customers favorable prices on our products. In that event, our average selling prices and gross margins would decline. The loss of a key customer, a reduction in sales to any key customer or our inability to attract new significant customers could seriously impact our revenue and materially and adversely affect our results of operations.

If we fail to penetrate new markets, our revenue, revenue growth rate, if any, and financial condition could be materially and adversely affected.

Currently, we sell most of our products to manufacturers of applications for digital television, cable modems and gateways and cable set-top boxes, automotive TV display and mobile electronic devices in Japan, and to Chinese manufacturers of set top boxes for sale in various markets worldwide. Our future revenue growth, if any, will depend in part on our ability to expand beyond these markets with our RF receivers and RF receiver SoCs. Each of these markets presents distinct and substantial risks. If any of these markets does not develop as we currently anticipate or if we are unable to penetrate them successfully, it could materially and adversely affect our revenue and revenue growth rate, if any.

We expect cable modems and set top boxes to represent our largest North American target market. The North American cable set top box market is dominated by only a few OEMs, including Motorola Inc., Cisco Systems, Inc., Arris Group, Inc. and Technicolor S.A. These OEMs are large, multinational corporations with substantial negotiating power relative to us. Securing design wins with any of these companies requires a substantial investment of our time and resources. Even if we succeed, additional testing and operational certifications will be required by the OEMs' customers, which include large cable television companies such as Comcast Corporation and Time Warner Cable Inc. In addition, our products will need to be compatible with other components in our customers' designs, including components produced by our competitors or potential competitors. There can be no assurance that these other companies will support or continue to support our products.

Finally, the markets for IPTV and PCTV are new, still developing and relatively small. We have sold limited quantities of our products into these markets and cannot predict how or to what extent demand for our products in these markets will develop.

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If we fail to penetrate these or other new markets upon which we target our resources, our revenue and revenue growth rate, if any, likely will decrease over time and our financial condition could suffer.

Table of Contents

If we fail to develop and introduce new or enhanced products on a timely basis, our ability to attract and retain customers could be impaired and our competitive position could be harmed.

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards and technological obsolescence. To compete successfully, we must design, develop, market and sell new or enhanced products that provide increasingly higher levels of performance and reliability and meet the cost expectations of our customers. The introduction of new products by our competitors, the market acceptance of products based on new or alternative technologies, or the emergence of new industry standards could render our existing or future products obsolete. Our failure to anticipate or timely develop new or enhanced products or technologies in response to technological shifts could result in decreased revenue and our competitors winning more competitive bid processes, known as design wins. In particular, we may experience difficulties with product design, manufacturing, marketing or certification that could delay or prevent our development, introduction or marketing of new or enhanced products. If we fail to introduce new or enhanced products that meet the needs of our customers or penetrate new markets in a timely fashion, we will lose market share and our operating results will be adversely affected.

Average selling prices of our products could decrease rapidly, which could have a material adverse effect on our revenue and gross margins.

We may experience substantial period-to-period fluctuations in future operating results due to the erosion of our average selling prices. From time to time, we have reduced the average unit price of our products due to competitive pricing pressures, new product introductions by us or our competitors and for other reasons. We expect that we will have to do so again in the future. If we are unable to offset any reductions in our average selling prices by increasing our sales volumes or introducing new products with higher operating margins, our revenue and gross margins will suffer. To maintain our gross margins, we must develop and introduce new products and product enhancements on a timely basis and continually reduce our and our customers' costs. Failure to do so would cause our revenue and gross margins to decline.

Our business, revenue and revenue growth, if any, will depend in part on the timing and development of the global transition from analog to digital television, which is subject to numerous regulatory and business risks outside our control.

For the three and nine months ended September 30, 2011 and year ended December 31, 2010, sales of our RF receiver products used in digital terrestrial television applications, or DTT, including digital televisions, automotive navigation displays, PCTV and set top boxes, modems and gateways for cable represented a significant portion of our revenues. We expect a significant portion of our revenue in future periods to continue to depend on the demand for DTT applications in Europe and Japan. In contrast to the United States, where the transition from analog to digital television occurred on a national basis in June 2009, in Europe the digital transition is being phased in on a local and regional basis and is expected to occur over many years. Most countries in Western Europe are expected to convert completely to digital television by the end of 2012, with the transition in Eastern Europe expected to continue through 2015. As a result, our future revenue will depend in part on government mandates requiring conversion from analog to digital television and on the timing and implementation of those mandates. If the transition to digital TV standards does not take place or is substantially delayed in Europe or other international markets, our business, revenue, operating results and financial condition would be materially and adversely affected. If during the transition to digital TV standards, consumers disproportionately purchase TVs with digital or hybrid tuning capabilities, this could diminish the size of the market for our digital-to-analog converter set-top box solutions, and as result our business, revenue, operating results and financial condition would be materially and adversely affected.

If we do not offer a competitive solution for applications where competitors offer integrated tuner/demodulator/video processing products, we may lose significant market share to our competitors.

If we cannot offer an attractive solution for applications where our competitors offer more fully integrated tuner/demodulator/video processing products, we may lose significant market share to our competitors. Certain of our competitors have fully integrated tuner/demodulator/video processing solutions targeting high performance cable or DTV applications, and thereby potentially provide customers with smaller and cheaper solutions.

Historically, a significant portion of our revenue has been attributable to demand for our products in markets for mobile electronic devices; however, revenue contribution from this market has declined in 2010 and in the three and nine months ended September 30, 2011 and is no longer an area of focus for the Company from a product development standpoint given the competitive dynamics and severe price erosion.

Sales of our products to customers in the mobile electronic device market accounted for a significant portion of our revenue in prior periods. The development of the market for mobile digital television will depend, among other factors, on regulatory decisions concerning adoption of mobile digital television standards, decisions by regulators and service providers concerning mobile television product offerings and agreements between service providers and content providers relating to economic aspects of mobile digital television broadcasts. Predicting how the global market for mobile digital television will develop is difficult because it is relatively new and subject to substantial regulatory and market risks,

which vary from country to country.

Table of Contents

As a result, we are unable to predict the timing or direction of the development of mobile digital television markets with any accuracy. In addition, because some of our products are not limited in the devices or geographic areas in which they may be deployed and we sell our products principally to distributors for subsequent sale to end user manufacturers, we cannot always determine with accuracy how, where or into which applications our products are being deployed. Delays in the development of, or unexpected developments in, these markets could have an adverse effect on order activity by mobile device manufacturers and, as a result, on our business, revenue, operating results and financial condition.

We may be unable to make the substantial and productive research and development investments which are required to remain competitive in our business.

The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. Many of our products originated with our research and development efforts and have provided us with a significant competitive advantage. Our research and development expense was \$9.5 million and \$30.0 million in the three and nine months ended September 30, 2011, respectively, and \$27.7 million in 2010 and \$19.8 million in 2009. In the three and nine months ended September 30, 2011, we continued to increase our research and development expenditures as compared to prior periods as part of our strategy of devoting focused research and development efforts on the development of innovative and sustainable product platforms. We are committed to investing in new product development internally in order to stay competitive in our markets and plan to maintain research and development and design capabilities for new solutions in advanced semiconductor process nodes such as 40nm and beyond. We do not know whether we will have sufficient resources to maintain the level of investment in research and development required to remain competitive as semiconductor process nodes continue to shrink and become increasingly complex. In addition, we cannot assure you that the technologies which are the focus of our research and development expenditures will become commercially successful.

Continued adverse U.S. and international economic conditions, including factors that adversely affect consumer spending for the products that incorporate our integrated circuits, could adversely affect our revenues, margins, and operating results.

Since September 2008, the global credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from U.S. and foreign governments. Recently, the credit crisis has reemerged in Europe with threats of credit default by certain member countries of the European Union such as Greece, Ireland, Spain and Portugal, and by substantial budgetary and fiscal constraints, including proposals for severe budget reductions in larger European Union countries such as Germany and the United Kingdom. Our products are incorporated in numerous consumer devices, and demand for our products will ultimately be driven by consumer demand for products such as mobile telephones, televisions, automobiles, and set top boxes. Many of these purchases are discretionary. In addition, our recent revenue growth has been attributable in large part to purchases of digital-to-analog set top converter boxes in various geographies including Europe. Partially in response to economic and political developments, Greece recently extended the date for its deadline for switching to exclusive digital television broadcasts. Similar extensions in other European countries could adversely affect our revenue and growth. These events, together with the current adverse economic conditions facing the broader economy and, in particular, the semiconductor and communications industries, have adversely affected, and may continue to adversely affect, our business, particularly to the extent that consumers decrease their discretionary spending for devices deploying our products.

Our net revenues could be adversely affected by the recent earthquake, tsunami, and nuclear crisis in Japan.

In March 2011, a major earthquake struck northeastern Japan, triggering a tsunami that together with the earthquake resulted in unprecedented damage to infrastructure and substantial loss of life. A subsequent nuclear crisis at the Fukushima I nuclear power plant has created significant concern about public health and safety, the effect of radiation contamination on food supplies, and the effect of lost power production on Japan's ability to satisfy electrical power demand, particularly as the country enters the summer months. From a business and financial perspective, these events have led to substantial uncertainty about the direction of the Japanese economy, including the automotive and consumer electronics industries from which we realize substantial revenues.

For fiscal 2010, revenue directly attributable to Japan, which includes revenues attributable to the sale of integrated circuits into the Japanese automotive industry and sales of integrated circuits for electronic devices destined for Japanese consumer and mobile markets, accounted for approximately 57% of our net revenue. In the three and nine months ended September 30, 2011, Japanese-derived revenue declined to 40% and 42%, respectively, of our net revenue as sales of our cable products increased relative to other products. We currently expect this trend to continue through the end of 2011. Nevertheless, Japan will continue to account for a substantial portion of our net revenues, and our ability to achieve our financial forecasts will depend in large part on trends in Japanese automotive and consumer markets. In particular, our net revenue in 2011 could be adversely affected by continued manufacturing shut-downs in Japan, whether due to power shortages, disruptions in manufacturing supply chains, or other reasons. In addition, net revenues attributable to Japanese consumer and mobile markets will depend on the reaction of Japanese consumers to these events, including trends in consumer confidence and spending and the general pace and trend of

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recovery from the earthquake, tsunami, and nuclear crisis. We have limited ability to predict the impact of these events on our net revenues, particularly when depleted inventories could begin to have a material effect on the availability of components if automotive and consumer electronic supply chains have not recovered by that time.

Table of Contents

Our net revenues could be adversely affected by flooding in Thailand.

In October 2011, many areas of Thailand sustained massive damage from flooding which may disrupt the global supply chain for hard disk drives and components manufactured in Thailand that may be included in the end user products of our customers. Due to cross dependencies, supply chain disruptions stemming from the flooding in Thailand could negatively impact the demand for our products, including, for example, if our customers are unable to obtain sufficient supply of other components required for their end product. We have limited ability to predict the impact of these events on our net revenues, particularly when depleted inventories could begin to have a material effect on the availability of hard disk drives and components if supply chains have not recovered by that time.

We rely on a limited number of third parties to manufacture, assemble and test our products, and the failure to manage our relationships with our third-party contractors successfully could adversely affect our ability to market and sell our products.

We do not have our own manufacturing facilities. We operate an outsourced manufacturing business model that utilizes third-party foundry and assembly and test capabilities. As a result, we rely on third-party foundry wafer fabrication and assembly and test capacity, including sole sourcing for many components or products. Currently, all of our products are manufactured by United Microelectronics Corporation and Silterra Malaysia Sdn. Bhd, at foundries in Taiwan, Singapore and Malaysia. We also use third-party contractors for all of our assembly and test operations.

Relying on third party manufacturing, assembly and testing presents significant risks to us, including the following:

failure by us, our customers, or their end customers to qualify a selected supplier;

capacity shortages during periods of high demand;

reduced control over delivery schedules and quality;

shortages of materials;

misappropriation of our intellectual property;

limited warranties on wafers or products supplied to us; and

potential increases in prices.

The ability and willingness of our third-party contractors to perform is largely outside our control. If one or more of our contract manufacturers or other outsourcers fails to perform its obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. For example, in the event that manufacturing capacity is reduced or eliminated at one or more facilities, including as a response to the recent worldwide decline in the semiconductor industry, manufacturing could be disrupted, we could have difficulties fulfilling our customer orders and our net revenue could decline. In addition, if these third parties fail to deliver quality products and components on time and at reasonable prices, we could have difficulties fulfilling our customer orders, our net revenue could decline and our business, financial condition and results of operations would be adversely affected.

Additionally, our manufacturing capacity may be similarly reduced or eliminated at one or more facilities due to the fact that our fabrication and assembly and test contractors are all located in the Pacific Rim region, principally in Taiwan, Singapore and Malaysia. The risk of earthquakes in these geographies is significant due to the proximity of major earthquake fault lines, and Taiwan in particular is also subject to typhoons and other Pacific storms. Earthquakes, fire, flooding, or other natural disasters in Taiwan or the Pacific Rim region, or political unrest, war, labor strikes, work stoppages or public health crises, such as outbreaks of H1N1 flu, in countries where our contractors facilities are located could

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result in the disruption of our foundry, assembly or test capacity. Any disruption resulting from these events could cause significant delays in shipments of our products until we are able to shift our manufacturing, assembly or test from the affected contractor to another third-party vendor. There can be no assurance that alternative capacity could be obtained on favorable terms, if at all.

We do not have any long-term supply contracts with our contract manufacturers or suppliers, and any disruption in our supply of products or materials could have a material adverse affect on our business, revenue and operating results.

We currently do not have long-term supply contracts with any of our third-party vendors, including UMC and Silterra. We make substantially all of our purchases on a purchase order basis, and neither UMC nor our other contract manufacturers are required to supply us products for any specific period or in any specific quantity. Foundry capacity may not be available when we need it or at reasonable prices. Availability of foundry capacity has in the past been reduced from time to time due to strong demand. Foundries can allocate capacity to the production of other companies' products and reduce deliveries to us on short notice. It is possible that foundry customers that are larger and better financed than we are, or that have long-term agreements with our foundry, may induce our foundry to reallocate capacity to them. This reallocation could impair our ability to secure the supply of components that we need.

Table of Contents

We expect that it would take approximately nine to twelve months to transition performance of our foundry or assembly services to new providers. Such a transition would likely require a qualification process by our customers or their end customers. We generally place orders for products with some of our suppliers approximately four to five months prior to the anticipated delivery date, with order volumes based on our forecasts of demand from our customers. Accordingly, if we inaccurately forecast demand for our products, we may be unable to obtain adequate and cost-effective foundry or assembly capacity from our third-party contractors to meet our customers' delivery requirements, or we may accumulate excess inventories. On occasion, we have been unable to adequately respond to unexpected increases in customer purchase orders and therefore were unable to benefit from this incremental demand. None of our third-party contractors has provided any assurance to us that adequate capacity will be available to us within the time required to meet additional demand for our products.

To address capacity considerations, we are in the process of qualifying additional semiconductor fabricators. Qualification will not occur if we identify a defect in a fabricator's manufacturing process or if our customers choose not to invest the time and expense required to qualify the proposed fabricator. If full qualification of a fabricator does not occur, we may not be able to sell all of the materials produced by this fabricator or to fulfill demand for our products, which would adversely affect our business, revenue and operating results. In addition, the resulting write-off of unusable inventories would have an adverse effect on our operating results.

Due to our limited operating history and our sell-through revenue recognition policy, we may have difficulty accurately predicting our future revenue and appropriately budgeting our expenses.

We have only a limited operating history from which to predict future revenue. This limited operating experience, combined with the rapidly evolving nature of the markets in which we sell our products, substantial uncertainty concerning how these markets may develop and other factors beyond our control, reduces our ability to accurately forecast quarterly or annual revenue. In addition, because we record revenue from sales when our products are shipped to end customers by our distributors, some of the revenue we record in a quarter may be derived from sales of products shipped to distributors during previous quarters. This reduces our ability to forecast quarterly or annual revenue accurately. We are currently expanding our staffing and increasing our expense levels in anticipation of future revenue growth. If our revenue does not increase as anticipated, we could incur significant losses due to our higher expense levels if we are not able to decrease our expenses in a timely manner to offset any shortfall in future revenue.

We may not sustain our growth rate, and we may not be able to manage future growth effectively.

We have experienced significant growth in a short period of time. Our net revenue increased from approximately \$31.3 million in 2008 to approximately \$51.4 million in 2009 and approximately \$68.7 million in 2010. We may not achieve similar growth rates in future periods. You should not rely on our operating results for any prior quarterly or annual periods as an indication of our future operating performance. If we are unable to maintain adequate revenue growth, our financial results could suffer and our stock price could decline.

To manage our growth successfully and handle the responsibilities of being a public company, we believe we must effectively, among other things:

recruit, hire, train and manage additional qualified engineers for our research and development activities, especially in the positions of design engineering, product and test engineering and applications engineering;

add sales personnel and expand customer engineering support offices;

implement and improve our administrative, financial and operational systems, procedures and controls; and

enhance our information technology support for enterprise resource planning and design engineering by adapting and expanding our systems and tool capabilities, and properly training new hires as to their use.

If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or develop new products and we may fail to satisfy customer requirements, maintain product quality, execute our business plan or respond to competitive pressures.

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Our customers require our products and our third-party contractors to undergo a lengthy and expensive qualification process which does not assure product sales.

Prior to purchasing our products, our customers require that both our products and our third-party contractors undergo extensive qualification processes, which involve testing of the products in the customer's system and rigorous reliability testing. This qualification process may continue for six months or more. However, qualification of a product by a customer does not assure any sales of the product to that customer. Even after successful qualification and sales of a product to a customer, a subsequent revision to the RF receiver or RF receiver SoC, changes in our customer's manufacturing process or our selection of a new supplier may require a new qualification process, which may result in delays and in us holding excess or obsolete inventory. After our products are qualified, it can take six months or more before the customer commences volume production of components or devices that incorporate our

Table of Contents

products. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, to qualifying our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, sales of this product to the customer may be precluded or delayed, which may impede our growth and cause our business to suffer.

We are subject to risks associated with our distributors' product inventories and product sell-through. Should any of our distributors cease or be forced to stop distributing our products, our business would suffer.

We currently sell a majority of our products to customers through our distributors, who maintain their own inventories of our products. Sales to distributors accounted for 71% and 72% of our net revenue in the three and nine months ended September 30, 2011, respectively, and 93% of our net revenue in the year ended December 31, 2010. If our distributors are unable to sell an adequate amount of their inventories of our products in a given quarter to manufacturers and end users or if they decide to decrease their inventories of our products for any reason, our sales to these distributors and our revenue may decline. In addition, if some distributors decide to purchase more of our products than are required to satisfy end customer demand in any particular quarter, inventories at these distributors would grow in that quarter. These distributors likely would reduce future orders until inventory levels realign with end customer demand, which could adversely affect our product revenue in a subsequent quarter.

Our reserve estimates with respect to the products stocked by our distributors are based principally on reports provided to us by our distributors, typically on a monthly basis. To the extent that this resale and channel inventory data is inaccurate or not received in a timely manner, we may not be able to make reserve estimates for future periods accurately or at all.

We are subject to order and shipment uncertainties, and differences between our estimates of customer demand and product mix and our actual results could negatively affect our inventory levels, sales and operating results.

Our revenue is generated on the basis of purchase orders with our customers rather than long-term purchase commitments. In addition, our customers can cancel purchase orders or defer the shipments of our products under certain circumstances. Our products are manufactured using a silicon foundry according to our estimates of customer demand, which requires us to make separate demand forecast assumptions for every customer, each of which may introduce significant variability into our aggregate estimate. We have limited visibility into future customer demand and the product mix that our customers will require, which could adversely affect our revenue forecasts and operating margins. Moreover, because our target markets are relatively new, many of our customers have difficulty accurately forecasting their product requirements and estimating the timing of their new product introductions, which ultimately affects their demand for our products. Historically, because of this limited visibility, actual results have been different from our forecasts of customer demand. Some of these differences have been material, leading to excess inventory or product shortages and revenue and margin forecasts above those we were actually able to achieve. These differences may occur in the future, and the adverse impact of these differences between forecasts and actual results could grow if we are successful in selling more products to some customers. In addition, the rapid pace of innovation in our industry could render significant portions of our inventory obsolete. Excess or obsolete inventory levels could result in unexpected expenses or increases in our reserves that could adversely affect our business, operating results and financial condition. Conversely, if we were to underestimate customer demand or if sufficient manufacturing capacity were unavailable, we could forego revenue opportunities, potentially lose market share and damage our customer relationships. In addition, any significant future cancellations or deferrals of product orders or the return of previously sold products due to manufacturing defects could materially and adversely impact our profit margins, increase our write-offs due to product obsolescence and restrict our ability to fund our operations.

Winning business is subject to lengthy competitive selection processes that require us to incur significant expenditures. Even if we begin a product design, a customer may decide to cancel or change its product plans, which could cause us to generate no revenue from a product and adversely affect our results of operations.

We are focused on securing design wins to develop RF receivers and RF receiver SoCs for use in our customers' products. These selection processes typically are lengthy and can require us to incur significant design and development expenditures and dedicate scarce engineering resources in pursuit of a single customer opportunity. We may not win the competitive selection process and may never generate any revenue despite incurring significant design and development expenditures. These risks are exacerbated by the fact that some of our customers' products likely will have short life cycles. Failure to obtain a design win could prevent us from offering an entire generation of a product, even though this has not occurred to date. This could cause us to lose revenue and require us to write off obsolete inventory, and could weaken our position in future competitive selection processes.

After securing a design win, we may experience delays in generating revenue from our products as a result of the lengthy development cycle typically required. Our customers generally take a considerable amount of time to evaluate our products. The typical time from early engagement by our sales force to actual product introduction runs from nine to twelve months for the consumer market, to as much as 12 to 36 months for the automotive TV display market. The delays inherent in these lengthy sales cycles increase the risk that a customer will decide to

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cancel, curtail, reduce or delay its product plans, causing us to lose anticipated sales. In addition, any delay or cancellation of a customer's plans could materially and adversely affect our financial results, as we

Table of Contents

may have incurred significant expense and generated no revenue. Finally, our customers' failure to successfully market and sell their products could reduce demand for our products and materially and adversely affect our business, financial condition and results of operations. If we were unable to generate revenue after incurring substantial expenses to develop any of our products, our business would suffer.

Our operating results are subject to substantial quarterly and annual fluctuations and may fluctuate significantly due to a number of factors that could adversely affect our business and our stock price.

Our revenue and operating results have fluctuated in the past and are likely to fluctuate in the future. These fluctuations may occur on a quarterly and on an annual basis and are due to a number of factors, many of which are beyond our control. These factors include, among others:

changes in end-user demand for the products manufactured and sold by our customers;

the receipt, reduction or cancellation of significant orders by customers;

fluctuations in the levels of component inventories held by our customers;

the gain or loss of significant customers;

market acceptance of our products and our customers' products;

our ability to develop, introduce and market new products and technologies on a timely basis;

the timing and extent of product development costs;

new product announcements and introductions by us or our competitors;

incurrence of research and development and related new product expenditures;

seasonality or cyclical fluctuations in our markets;

currency fluctuations;

fluctuations in IC manufacturing yields;

significant warranty claims, including those not covered by our suppliers;

changes in our product mix or customer mix;

intellectual property disputes;

loss of key personnel or the shortage of available skilled workers; and

the effects of competitive pricing pressures, including decreases in average selling prices of our products.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly or annual operating results. We typically are required to incur substantial development costs in advance of a prospective sale with no certainty that we will ever recover these costs. A substantial amount of time may pass between a design win and the generation of revenue related to the expenses previously incurred, which can potentially cause our operating results to fluctuate significantly from period to period. In addition, a significant amount of our operating expenses are relatively fixed in nature due to our significant sales, research and development costs. Any failure to adjust spending quickly enough to compensate for a revenue shortfall could magnify its adverse impact on our results of operations.

Our business would be adversely affected by the departure of existing members of our senior management team.

Our success depends, in large part, on the continued contributions of our senior management team, in particular, the services of Kishore Seendripu, Ph.D., our Chairman, President and Chief Executive Officer, Curtis Ling, Ph.D., our Chief Technical Officer and a Director, and Madhukar Reddy, Ph.D., our Vice President, IC and RF Systems Engineering. None of our senior management team is bound by written employment contracts to remain with us for a specified period. In addition, we have not entered into non-compete agreements with members of our senior management team. The loss of any member of our senior management team could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate.

If we are unable to attract, train and retain qualified personnel, especially our design and technical personnel, we may not be able to execute our business strategy effectively.

Our future success depends on our ability to retain, attract and motivate qualified personnel, including our management, sales and marketing and finance, and especially our design and technical personnel. We do not know whether we will be able to retain all of these personnel as we continue to