MAXLINEAR INC
Form 10-Q
May 01, 2019
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 March 31, 2019

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	14-1896129
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5966 La Place Court, Suite 100 Carlsbad, California	92008
(Address of principal executive offices)	(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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No ¨

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of April 24, 2019, the registrant had 70,603,629 shares of common stock, par value $0.0001, outstanding.

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QUARTERLY REPORT ON FORM 10-Q
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PART I — FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

MAXLINEAR, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited; in thousands, except par value amounts)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$71,102	$ 73,142
Short-term restricted cash	347	645
Accounts receivable, net	59,639	59,491
Inventory	42,753	41,738
Prepaid expenses and other current assets	5,479	5,595
Total current assets	179,320	180,611
Long-term restricted cash	418	404
Property and equipment, net	16,987	18,404
Leased right-of-use assets	21,543	—
Intangible assets, net	230,634	244,900
Goodwill	238,330	238,330
Deferred tax assets	58,067	51,518
Other long-term assets	3,583	4,664
Total assets	$748,882	$ 738,831
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$13,306	$ 15,588
Accrued price protection liability	18,943	16,454
Accrued expenses and other current liabilities	32,707	23,520
Accrued compensation	8,527	15,005
Total current liabilities	73,483	70,567
Long-term lease liabilities	18,132	4,097
Long-term debt	241,044	255,757
Other long-term liabilities	8,019	8,474
Total liabilities	340,678	338,895
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, 70,532 shares issued and outstanding at March 31, 2019 and 550,000 shares authorized, 69,551 shares issued and outstanding December 31, 2018, respectively	7	7
Additional paid-in capital	506,649	493,287
Accumulated other comprehensive income	297	272
Accumulated deficit	(98,749)	(93,630)
Total stockholders' equity	408,204	399,936
Total liabilities and stockholders' equity	$748,882	$ 738,831

See accompanying notes.

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MAXLINEAR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited; in thousands, except per share data)

	Three Months Ended March 31,	
	2019	2018
Net revenue	$84,635	$110,827
Cost of net revenue	39,558	48,159
Gross profit	45,077	62,668
Operating expenses:		
Research and development	27,399	31,121
Selling, general and administrative	23,591	27,117
Restructuring charges	1,917	—
Total operating expenses	52,907	58,238
Income (loss) from operations	(7,830)	4,430
Interest income	147	18
Interest expense	(2,975)	(3,894)
Other income (expense), net	(655)	(571)
Total interest and other income (expense), net	(3,483)	(4,447)
Loss before income taxes	(11,313)	(17)
Income tax benefit	(6,462)	(1,864)
Net income (loss)	$(4,851)	$1,847
Net income (loss) per share:		
Basic	$(0.07)	$0.03
Diluted	$(0.07)	$0.03
Shares used to compute net income (loss) per share:		
Basic	69,968	67,674
Diluted	69,968	70,440

See accompanying notes.

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MAXLINEAR, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited; in thousands)

	Three Months Ended March 31,	
	2019	2018
Net income (loss)	$(4,851)	$1,847
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments, net of tax benefit of $1 and $29 for the three months ended March 30, 2019 and 2018, respectively	513	393
Unrealized gain (loss) on interest rate swap, net of tax benefit of $130 and tax expense of $188 for the three months ended March 31, 2019 and 2018, respectively	(488)	1,196
Other comprehensive income	25	1,589
Total comprehensive income (loss)	$(4,826)	$3,436

See accompanying notes.

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MAXLINEAR, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2019
(unaudited; in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2018	69,551	$ 7	$ 493,287	$ 272	$ (93,630)	$ 399,936
Common stock issued pursuant to equity awards, net	981	—	5,615	—	—	5,615
Stock-based compensation	—	—	7,747	—	—	7,747
Cumulative effect of adoption of new accounting principle	—	—	—	—	(268)	(268)
Other comprehensive income	—	—	—	25	—	25
Net loss	—	—	—	—	(4,851)	(4,851)
Balance at March 31, 2019	70,532	$ 7	$ 506,649	$ 297	$ (98,749)	$ 408,204

See accompanying notes.

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MAXLINEAR, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2018
(unaudited; in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2017	67,400	$ 7	$ 455,497	$ 1,039	$ (69,119)	$ 387,424
Common stock issued pursuant to equity awards, net	691	—	5,586	—	—	5,586
Stock-based compensation	—	—	8,473	—	—	8,473
Cumulative effect of adoption of new accounting principles	—	—	—	—	1,529	1,529
Other comprehensive income	—	—	—	1,589	—	1,589
Net income	—	—	—	—	1,847	1,847
Balance at March 31, 2018	68,091	$ 7	$ 469,556	$ 2,628	$ (65,743)	$ 406,448

See accompanying notes.

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MAXLINEAR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited; in thousands)

	Three Months Ended March 31,	
	2019	2018
Operating Activities		
Net income (loss)	$ (4,851)	$ 1,847
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Amortization and depreciation	16,863	20,084
Amortization of debt issuance costs and accretion of discount on debt and leases	402	287
Stock-based compensation	7,747	8,473
Deferred income taxes	(6,476)	(2,332)
Loss on disposal of property and equipment	35	—
Impairment of leasehold improvements	1,442	—
Impairment of long-lived assets	2,182	—
Gain on extinguishment of lease liabilities	(2,880)	—
Loss on foreign currency	567	471
Excess tax benefits on stock-based awards	(1,737)	(797)
Changes in operating assets and liabilities:		
Accounts receivable	(142)	(24,533)
Inventory	(1,015)	7,676
Prepaid expenses and other assets	604	1,003
Leased right-of-use assets	645	—
Accounts payable, accrued expenses and other current liabilities	1,921	(421)
Accrued compensation	893	2,502
Deferred revenue and deferred profit	—	(138)
Accrued price protection liability	2,489	(1,359)
Lease liabilities	(2,125)	—

Other long-term liabilities	(519		)	(792		)
Net cash provided by operating activities	16,045			11,971		
Investing Activities						
Purchases of property and equipment	(2,155		)	(2,381		)
Net cash used in investing activities	(2,155		)	(2,381		)
Financing Activities						
Repayment of debt	(15,000		)	(25,000		)
Net proceeds from issuance of common stock	2,628			980		
Minimum tax withholding paid on behalf of employees for restricted stock units	(4,419		)	(2,391		)
Net cash used in financing activities	(16,791		)	(26,411		)
Effect of exchange rate changes on cash and cash equivalents	577			(258		)
Decrease in cash, cash equivalents and restricted cash	(2,324		)	(17,079		)
Cash, cash equivalents and restricted cash at beginning of period	74,191			74,412		
Cash, cash equivalents and restricted cash at end of period	$	71,867		$	57,333	
Supplemental disclosures of cash flow information:						
Cash paid for interest	$	3,099		$	3,546	
Cash paid for income taxes	$	872		$	203	
Supplemental disclosures of non-cash activities:						
Issuance of shares for payment of bonuses	$	7,406		$	6,997	

See accompanying notes.

MAXLINEAR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Summary of Significant Accounting Policies

Description of Business

MaxLinear, Inc. was incorporated in Delaware in September 2003. MaxLinear, Inc., together with its wholly owned subsidiaries, collectively referred to as MaxLinear, or the Company, is a provider of radio-frequency, or RF, high-performance analog, and mixed-signal communications system-on-chip solutions for the connected home, wired and wireless infrastructure, and industrial and multi-market applications. MaxLinear's customers include electronics distributors, module makers, original equipment manufacturers, or OEMs, and original design manufacturers, or ODMs, who incorporate the Company’s products in a wide range of electronic devices, including cable DOCSIS broadband modems and gateways, wireline connectivity devices for in-home networking applications, RF transceivers and modems for wireless carrier access and backhaul infrastructure, fiber-optic modules for data center, metro, and long-haul transport networks, video set-top boxes and gateways, hybrid analog and digital televisions, direct broadcast satellite outdoor and indoor units, and power management and interface products used in these and a range of other markets. The Company is a fabless integrated circuit design company whose products integrate all or a substantial portion of a broadband communication system.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of MaxLinear, Inc. and its wholly owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, 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 GAAP for complete financial statements. All intercompany transactions and investments have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform with the current period presentation. Such reclassifications include the separate presentation of long-term lease liabilities on the consolidated balance sheets.
In the opinion of management, the Company’s unaudited consolidated interim financial statements contain adjustments, including normal recurring accruals necessary to present fairly the Company’s consolidated financial position, results of operations, comprehensive income (loss), stockholders’ equity, and cash flows.

The consolidated balance sheet as of December 31, 2018 was derived from the Company’s audited consolidated financial statements at that date. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto for the year ended December 31, 2018 included in the Company’s Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission, or the SEC, on February 5, 2019, or the Annual Report. Interim results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes to unaudited consolidated financial statements. Actual results could differ from those estimates.

Summary of Significant Accounting Policies

Refer to the Company’s Annual Report for a summary of significant accounting policies. On January 1, 2019, the Company adopted Financial Accounting Standards Board, or FASB, Accounting Standards Codification Topic 842, Leases, or ASC 842, using the modified retrospective transition method with a cumulative effect adjustment to accumulated deficit as of January 1, 2019, and accordingly, modified its policy on accounting for leases as stated below. As described under “Recently Adopted Accounting Pronouncements,” below, the primary impact of adopting ASC 842 for the Company was the recognition in the consolidated balance sheet of certain lease-related assets and liabilities for operating leases with terms longer than 12 months. Such amounts were not previously accounted for in the Company's consolidated balance sheets.

There have been no other material changes to the Company's significant accounting policies during the three months ended March 31, 2019.

Leases

The Company's leases primarily consist of facility leases which are classified as operating leases. The Company assesses whether an arrangement contains a lease at inception. The Company recognizes a lease liability to make contractual payments under all leases with terms greater than twelve months and a corresponding right-of-use asset, representing its right to use the underlying asset for the lease term. The lease liability is initially measured at the present value of the lease payments over the lease term using the collateralized incremental borrowing rate since the implicit rate is unknown. Options to extend or terminate a lease are included in the lease term when it is reasonably certain that the Company will exercise such an option. The right-of-use asset is initially measured as the contractual lease liability plus any initial direct costs and prepaid lease payments made, less any lease incentives. Upon adoption of ASC 842 on January 1, 2019, the carrying value of lease-related restructuring liability for certain restructured leases existing at that date, has been offset against the related right-of-use asset. Lease expense is recognized on a straight-line basis over the lease term.

On January 1, 2019, the Company adopted ASC 842 using the modified retrospective transition method with a cumulative adjustment to accumulated deficit at the beginning of the period of adoption. Upon adoption, the Company elected certain practical expedients and accordingly has (1) carried forward its prior assessments of (a) whether existing contracts on the January 1, 2019 adoption date contain leases, (b) classification of leases as operating or financing and (c) initial direct costs for existing leases and (2) considered hindsight in determining the lease term and assessing impairment of the right-of-use-asset. In addition, the Company used a portfolio approach for its facility leases when making judgments and estimates, such as the discount rate (Note 12).

Leased right-of-use assets are subject to impairment testing as a long-lived asset at the asset-group level. The Company monitors its long-lived assets for indicators of impairment. As the Company's leased right-of-use assets relate to facility leases, early abandonment of all or part of facility as part of a restructuring plan is typically an indicator of impairment. If impairment indicators are present, the Company tests whether the carrying amount of the leased right-of-use asset is recoverable including consideration of sublease income, and if not recoverable, measures impairment loss for the right-of-use asset or asset group. Impairment charges on leased right-of-use assets are included in restructuring charges in the statement of operations (Note 3).

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this update require a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset. For leases less than twelve months, an entity is permitted to make an accounting policy election by class of underlying asset not to recognize right-of-use assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The Company made this election. Also, in July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, to provide an additional transition method. An entity can elect not to present comparative financial information under Topic 842 if it recognizes a cumulative-effect adjustment to retained earnings upon adoption. The Company also made this election. Further, in January 2019, the FASB issued ASU 2019-01, Leases (Topic 842): Codification Improvements, which clarified that post-adoption interim transition disclosures normally required in the year of adoption for the effect of a change in accounting principle on an entity's financial statements are not required for the adoption of ASC 842. The amendments in these updates are effective for the Company for fiscal years beginning with 2019, including interim periods within those years, with early adoption permitted. The Company has completed its assessment of the impact of the adoption of ASC 842. Upon adoption, the Company recognized approximately $24.8 million of right-of-use assets and a net increase of $25.1 million in lease-related liabilities at January 1, 2019. Also, the impact of the adoption of ASC 842 on the Company's accumulated deficit and deferred tax assets at January 1, 2019 was not material. Lastly, the impact of the adoption of ASC 842 on the Company's consolidated results of operations for the year ending December 31, 2019 is not expected to be material.

In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases, to clarify on how to apply certain aspects of the new lease accounting standard. The amendments in this update, among other things, better articulates the requirement for a lessee's reassessment of lease classification as of the effective date of a modification, clarifies that a change to an index or rate for variable lease payments does not constitute a resolution of a contingency that would result in the remeasurement of lease payments, and requires entities that apply Topic 842 retrospectively to each reporting period and do not adopt the practical expedients to write off any prior unamortized initial direct costs that do not meet the definition under Topic 842 to equity. The amendments in this update have the same effective date and transition requirements as the new lease standard summarized above. The Company has disclosed the impact of adoption of Topic 842 on the Company's consolidated financial position and results of operations as stated above.

In July 2018, the FASB issued ASU No. 2018-09, Codification Improvements, to clarify the Codification and prevent unintended application of the guidance. An amendment to ASC 718-740, Compensation—Stock Compensation—Income Taxes, clarifies that excess tax benefits should be recognized in the period in which the amount of the deduction is determined. The transition and effective date guidance is based on the facts and circumstances of each amendment. The amendment identified above became effective for the Company beginning with fiscal year 2019. The adoption of the amendments in this update in the three months ended March 31, 2019 did not have a material impact on the Company's consolidated financial position and results of operations.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815), which is intended to improve accounting for hedging activities by expanding and refining hedge accounting for both nonfinancial and financial risk components and aligning the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this update became effective for the Company for fiscal years beginning with fiscal year 2019, including interim periods within those years, with early adoption permitted in any interim period. The amendments in this update were required to be applied prospectively. The adoption of the amendments in this update in the three months ended March 31, 2019 did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if the reporting unit had been acquired in a business combination. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. The amendments in this update are effective for the Company beginning with fiscal year 2020, including interim periods, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of the amendments in this update is not expected to have a material impact on the Company’s consolidated financial position and results of operations.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, to improve the fair value measurement reporting of financial instruments. The amendments in this update require, among other things, added disclosure of the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update eliminate, among other things, disclosure of the reasons for and amounts of transfers between Level 1 and Level 2 for assets and liabilities that are measured at fair value on a recurring basis and an entity's valuation processes for Level 3 fair value measurements. The amendments in this update will be effective for the Company beginning with fiscal year 2020, with early adoption permitted. Retrospective application is required for all amendments in this update except the added disclosures, which should be applied prospectively. The adoption of the amendments in this update is not expected to have a material impact on the Company’s consolidated financial position and results of operations.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles- Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, to provide additional guidance on the accounting for costs of implementing cloud computing

arrangements that are service contracts. The amendments in this update require the capitalization of implementation costs during the application development stage of such hosting arrangements and amortization of the expense over the term of the arrangement including any option to extend reasonably certain to be exercised or option to terminate reasonably certain not to be exercised. Capitalized implementation costs and amortization thereof are also required to be classified in the same line item in the statements of financial position, operations and cash flows associated with the hosting service fees. The amendments in this update will be effective for the Company beginning with fiscal year 2020, with early adoption permitted. Entities may select retrospective or prospective application to all implementation costs incurred after the adoption date. The adoption of the amendments in this update is not expected to have a material impact on the Company's consolidated financial position and results of operations.

 MAXLINEAR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

2. Net Income (Loss) Per Share

Basic earnings per share, or EPS, is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing net income 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, restricted stock units and restricted stock awards are considered to be common stock equivalents and are only included in the calculation of diluted EPS when their effect is dilutive. In periods in which the Company has a net loss, dilutive common stock equivalents are excluded from the calculation of diluted EPS.

The table below presents the computation of basic and diluted EPS:

	Three Months Ended March 31,	
	2019	2018
	(in thousands, except per share amounts)	
Numerator:		
Net income (loss)	$(4,851)	$1,847
Denominator:		
Weighted average common shares outstanding—basic	69,968	67,674
Dilutive common stock equivalents	—	2,766
Weighted average common shares outstanding—diluted	69,968	70,440
Net income (loss) per share:		
Basic	$(0.07)	$0.03
Diluted	$(0.07)	$0.03

For the three months ended March 31, 2019, the Company incurred a net loss and accordingly excluded common stock equivalents for outstanding stock-based awards, which represented all potentially dilutive securities, of 2.9 million from the calculation of diluted net loss per share due to their anti-dilutive nature. For the three months ended March 31, 2018, the Company excluded 1.0 million of common stock equivalents for outstanding stock-based awards from the calculation of diluted net income per share due to their anti-dilutive nature.

3. Restructuring Activity

From time to time, the Company approves and implements restructuring plans as a result of acquisitions, internal resource alignment, and cost saving measures. Such restructuring plans include vacating certain leased facilities, terminating employees, and cancellation of contracts.

The following table presents the activity related to the restructuring plans, which is included in restructuring charges in the consolidated statements of operations:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Employee separation expenses	$ 472	$ —
Lease related charges	1,345	—
Other	100	—
	$ 1,917	$ —

Lease-related charges for the three months ended March 31, 2019 primarily related to exiting certain facilities and includes the impairment of long-lived assets (right-of-use assets) and leasehold improvements of $2.2 million and $1.4 million, respectively, partially offset by a gain on the extinguishment of lease liabilities of $2.9 million following the release from such liability by the landlord. The Company does not expect to incur additional material costs related to current restructuring plans.

The following table presents a roll-forward of the Company's restructuring liability for the three months ended March 31, 2019. The restructuring liability is included in accrued expenses and other current liabilities in the consolidated balance sheets.

	Employee Separation Expenses	Lease Related Charges	Other	Total
	(in thousands)			
Liability as of December 31, 2018	$409	$1,490	$47	$1,946
Restructuring charges	472	1,345	100	1,917
Transfer to right-of-use asset	—	(299)	—	(299)
Cash payments	(662)	(1,445)	(59)	(2,166)
Non-cash charges	—	12	—	12
Liability as of March 31, 2019	$219	$1,103	$88	$1,410

Remaining lease related charges as of March 31, 2019 primarily consist of common area maintenance obligations.

4. Goodwill and Intangible Assets

Goodwill

Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. The fair values of net tangible assets and intangible assets acquired are based upon preliminary valuations and the Company's estimates and assumptions are subject to change within the measurement period (potentially up to one year from the acquisition date).

During the three months ended March 31, 2019, there were no changes in the carrying amount of goodwill.

The Company performs an annual goodwill impairment assessment on October 31st each year, using a two-step quantitative assessment. Step one is the identification of potential impairment. This involves comparing the fair value of each reporting unit, which the Company has determined to be the entity itself, with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds the carrying amount, the goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any.

In addition to its annual review, the Company performs a test of impairment when indicators of impairment are present. During the three months ended March 31, 2019 and 2018, no indications of impairment of the Company's goodwill balances were identified and, as a result, no goodwill impairment was recognized.

Acquired Intangibles

Finite-lived Intangible Assets

The following table sets forth the Company’s finite-lived intangible assets resulting from business acquisitions and other purchases:

		March 31, 2019			December 31, 2018		
	Weighted Average Useful Life (in Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
		(in thousands)					
Licensed technology	3.7	$2,070	$ (1,265)	$805	$2,070	$ (1,130)	$940
Developed technology	6.9	240,461	(83,055)	157,406	238,961	(74,630)	164,331
Trademarks and trade names	6.1	13,800	(4,816)	8,984	13,800	(4,252)	9,548
Customer relationships	4.6	121,100	(60,697)	60,403	121,100	(55,647)	65,453
Non-compete covenants	3.0	1,100	(964)	136	1,100	(872)	228
	6.1	$378,531	$ (150,797)	$227,734	$377,031	$ (136,531)	$240,500

The following table sets forth amortization expense associated with finite-lived intangible assets, which is included in the consolidated statements of operations as follows:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Cost of net revenue	$8,434	$8,978
Research and development	34	42
Selling, general and administrative	5,798	7,994
	$14,266	$17,014

Amortization of finite-lived intangible assets in cost of net revenue in the consolidated statements of operations results primarily from acquired developed technology.

The following table sets forth the activity related to finite-lived intangible assets:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Beginning balance	$240,500	$310,645
Transfers to developed technology from IPR&D	1,500	—
Amortization	(14,266)	(17,014)
Ending balance	$227,734	$293,631

The Company regularly reviews the carrying amount of its long-lived assets subject to depreciation and amortization, as well as the related useful lives, to determine whether indicators of impairment may exist that warrant adjustments to carrying values or estimated useful lives. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. Should impairment exist, the impairment loss is measured based on the excess of the carrying amount of the asset over the asset’s fair value. During the three months ended March 31, 2019 and 2018, no impairment losses related to finite-lived intangible assets were recognized.

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The following table presents future amortization of the Company’s finite-lived intangible assets at March 31, 2019:

	Amount (in thousands)
2019 (9 months)	$ 42,715
2020	56,168
2021	55,385
2022	37,855
2023	25,660
Thereafter	9,951
Total	$ 227,734

Indefinite-lived Intangible Assets

Indefinite-lived intangible assets consist entirely of acquired in-process research and development technology, or IPR&D. The following table sets forth the Company’s activities related to the indefinite-lived intangible assets:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Beginning balance	$4,400	$4,400
Transfers to developed technology from IPR&D	(1,500)	—
Ending balance	$2,900	$4,400

The Company performs its annual assessment of indefinite-lived intangible assets on October 31 each year or more frequently if events or changes in circumstances indicate that the asset might be impaired utilizing a qualitative test as a precursor to the quantitative test comparing the fair value of the assets with their carrying amount. Based on the qualitative test, if it is more likely than not that indicators of impairment exists, the Company proceeds to perform a quantitative analysis. During the three months ended March 31, 2019 and 2018, no indicators of impairment were identified and, as a result, no IPR&D impairment losses were recorded.

5. Financial Instruments

The composition of financial instruments is as follows:

	March 31, 2019	December 31, 2018
	(in thousands)	
Assets		
Interest rate swap	$1,005	$ 1,623

The fair value of the Company’s financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants and is 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:

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.

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The Company classifies its financial instrument within Level 2 of the fair value hierarchy on the basis of models utilizing market observable inputs. The interest rate swap has been valued on the basis of valuations provided by third-party pricing services, as derived from standard valuation or pricing models. Market-based observable inputs for the interest rate swap include one month LIBOR-based yield curves over the term of the swap. The Company reviews third-party pricing provider models, key inputs and assumptions and understands the pricing processes at its third-party providers in determining the overall reasonableness of the fair value of its Level 2 financial instruments. The Company also considers the risk of nonperformance by assessing the swap counterparty's credit risk in the estimate of fair value of the interest rate swap. As of March 31, 2019 and December 31, 2018, the Company has not made any adjustments to the valuations obtained from its third-party pricing providers.

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

		Fair Value Measurements		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Interest rate swap, March 31, 2019	$1,005	$ —	$ 1,005	$ —
Interest rate swap, December 31, 2018	$1,623	$ —	$ 1,623	$ —

The following table summarizes activity for the interest rate swap:

	Three Months Ended	
	March 31, 2019	March 31, 2018
	(in thousands)	
Interest rate swap asset		
Beginning balance	$1,623	$ 734
Unrealized gain (loss) recognized in other comprehensive income (loss)	(618)	1,384
Ending balance	$1,005	$ 2,118

There were no transfers between Level 1, Level 2 or Level 3 financial instruments in the three months ended March 31, 2019 and 2018.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

Some of the Company's financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: cash and cash equivalents, restricted cash, net receivables, certain other assets, accounts payable, accrued price protection liability, accrued expenses, accrued compensation costs, and other current liabilities.

The Company's long-term debt is not recorded at fair value on a recurring basis, but is measured at fair value for disclosure purposes (Note 7).

6. Balance Sheet Details

Cash, cash equivalents and restricted cash consist of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Cash and cash equivalents	$71,102	$ 73,142
Short-term restricted cash	347	645
Long-term restricted cash	418	404
Total cash, cash equivalents and restricted cash	$71,867	$ 74,191

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As of March 31, 2019 and December 31, 2018, cash and cash equivalents included $20.0 million and $0 of money market funds, respectively. As of March 31, 2019 and December 31, 2018, the Company has restricted cash of $0.8 million and $1.0 million, respectively. The cash is restricted in connection with guarantees for certain import duties and office leases.

Inventory consists of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Work-in-process	$15,365	$ 17,618
Finished goods	27,388	24,120
	$42,753	$ 41,738

Property and equipment, net consists of the following:

	Useful Life (in Years)	March 31, 2019	December 31, 2018
		(in thousands)	
Furniture and fixtures	5	$2,183	$2,020
Machinery and equipment	3-5	34,710	34,225
Masks and production equipment	2-5	12,645	12,645
Software	3	5,677	5,675
Leasehold improvements	1-5	16,199	17,493
Construction in progress	N/A	360	133
		71,774	72,191
Less accumulated depreciation and amortization		(54,787)	(53,787)
		$16,987	$18,404

Depreciation expense for the three months ended March 31, 2019 and 2018 was $2.1 million and $3.1 million, respectively.

Accrued price protection liability consists of the following activity:

	Three Months Ended March 31, 2019	2018
	(in thousands)	
Beginning balance	$16,454	$21,571
Charged as a reduction of revenue	10,508	10,744
Reversal of unclaimed rebates	—	(2,367)
Payments	(8,019)	(9,736)
Ending balance	$18,943	$20,212

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Accrued expenses and other current liabilities consist of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Accrued technology license payments	$4,500	$ 4,500
Accrued professional fees	1,428	1,270
Accrued engineering and production costs	2,590	646
Accrued restructuring	1,410	1,946
Accrued royalty	923	980
Short-term lease liabilities	8,033	1,214
Accrued customer credits	556	1,204
Income tax liability	3,846	1,642
Customer contract liabilities	71	71
Accrued obligations to customers for price adjustments	7,317	7,558
Accrued obligations to customers for stock rotation rights	1,980	1,494
Other	53	995
	$32,707	$ 23,520

The following table summarizes the change in balances of accumulated other comprehensive income (loss) by component:

	Cumulative Translation Adjustments	Interest Rate Hedge	Total
	(in thousands)		
Balance at December 31, 2018	$(907)	$1,179	$272
Current period other comprehensive income (loss)	513	(488)	25
Balance at March 31, 2019	$(394)	$691	$297

7. Debt and Interest Rate Swap

Debt

The carrying amount of the Company's long-term debt consists of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Principal	$247,000	$ 262,000
Less:		
Unamortized debt discount	(1,555)	(1,630)
Unamortized debt issuance costs	(4,401)	(4,613)
Net carrying amount of long-term debt	241,044	255,757
Less: current portion of long-term debt	—	—
Long-term debt, non-current portion	$241,044	$ 255,757

On May 12, 2017, the Company entered into a credit agreement with certain lenders and a collateral agent in connection with the acquisition of Exar Corporation. The credit agreement provides for an initial secured term B loan facility, or the “Initial Term Loan,” in an aggregate principal amount of $425.0 million. The credit agreement permits the Company to request incremental loans in an aggregate principal amount not to exceed the sum of $160.0 million (subject to adjustments for any voluntary prepayments), plus an unlimited amount that is subject to pro forma

compliance with certain secured leverage ratio

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and total leverage ratio tests. Incremental loans are subject to certain additional conditions, including obtaining additional commitments from the lenders then party to the credit agreement or new lenders.

Loans under the credit agreement bear interest, at the Company's option, at a rate equal to either (i) a base rate equal to the highest of (x) the federal funds rate, plus 0.50%, (y) the prime rate then in effect and (z) an adjusted LIBOR rate determined on the basis of a one- three- or six-month interest period, plus 1.0% or (ii) an adjusted LIBOR rate, subject to a floor of 0.75%, in each case, plus an applicable margin of 2.50% in the case of LIBOR rate loans and 1.50% in the case of base rate loans. Commencing on September 30, 2017, the Initial Term Loan amortizes in equal quarterly installments equal to 0.25% of the original principal amount of the Initial Term Loan, with the balance payable on the maturity date. The Initial Term Loan has a term of seven years and will mature on May 12, 2024, at which time all outstanding principal and accrued and unpaid interest on the Initial Term Loan is due. The Company is also required to pay fees customary for a credit facility of this size and type.

The Company is required to make mandatory prepayments of the outstanding principal amount of term loans under the credit agreement with the net cash proceeds from the disposition of certain assets and the receipt of insurance proceeds upon certain casualty and condemnation events, in each case, to the extent not reinvested within a specified time period, from excess cash flow beyond stated threshold amounts, and from the incurrence of certain indebtedness. The Company has the right to prepay its term loans under the credit agreement, in whole or in part, at any time without premium or penalty, subject to certain limitations and a 1.0% soft call premium applicable during the first six months of the loan term. The Company exercised its right to prepay and made aggregate prepayments of principal of $178.0 million from origination through March 31, 2019.

The Company's obligations under the credit agreement are required to be guaranteed by certain of its domestic subsidiaries meeting materiality thresholds set forth in the credit agreement. Such obligations, including the guaranties, are secured by substantially all of the assets of the Company and the subsidiary guarantors pursuant to a security agreement with the collateral agent.

The credit agreement contains customary affirmative and negative covenants, including covenants limiting the ability of the Company and its restricted subsidiaries to, among other things, incur debt, grant liens, undergo certain fundamental changes, make investments, make certain restricted payments, and sell assets, in each case, subject to limitations and exceptions. As of March 31, 2019, the Company was in compliance with such covenants. The credit agreement also contains customary events of default that include, among other things, certain payment defaults, cross defaults to other indebtedness, covenant defaults, change in control defaults, judgment defaults, and bankruptcy and insolvency defaults. If an event of default exists, the lenders may require immediate payment of all obligations under the credit agreement, and may exercise certain other rights and remedies provided for under the credit agreement, the other loan documents and applicable law.

As of March 31, 2019 and December 31, 2018, the weighted average effective interest rate payable on the long-term debt was approximately 4.8% and 4.6%, respectively.

The debt is carried at its principal amount, net of unamortized debt discount and issuance costs, and is not adjusted to fair value each period. The issuance date fair value of the liability component of the debt in the amount of $398.5 million was determined using a discounted cash flow analysis, in which the projected interest and principal payments were discounted back to the issuance date of the term loan at a market interest rate for nonconvertible debt of 4.6%, which represents a Level 3 fair value measurement. The debt discount of $2.1 million and debt issuance costs of $6.0 million are being amortized to interest expense using the effective interest method from the issuance date through the contractual maturity date of the term loan of May 12, 2024.

During both the three months ended March 31, 2019 and 2018, the Company recognized total amortization of debt discount and debt issuance costs of $0.3 million to interest expense.

The approximate fair value of the term loan as of March 31, 2019 and December 31, 2018 was $250.2 million and $268.1 million, respectively, which was estimated on the basis of inputs that are observable in the market and which is considered a Level 2 measurement method in the fair value hierarchy.

As of March 31, 2019 and December 31, 2018, the remaining principal balance on the term loan was $247.0 million and $262.0 million, respectively. The remaining principal balance is due on May 12, 2024 at the maturity date on the term loan.

Interest Rate Swap

In November 2017, the Company entered into a fixed-for-floating interest rate swap with an amortizing notional amount to swap a substantial portion of variable rate LIBOR interest payments under its term loans for fixed interest payments bearing an interest rate of 1.74685%. The Company's outstanding debt is still subject to a 2.5% fixed applicable margin during the term

of the loan. The interest rate swap is designated as a cash flow hedge of a portion of floating rate interest payments on long-term debt and effectively fixes the interest rate on a substantial portion of the Company's long-term debt at approximately 4.25%. Accordingly, the Company applies cash flow hedge accounting to the interest rate swap and it is recorded at fair value as an asset or liability and the effective portion of changes in the fair value of the interest rate swap, as measured quarterly, are reported in other comprehensive income (loss). As of March 31, 2019 and December 31, 2018, the fair value of the interest rate swap asset was $1.0 million and $1.6 million (Note 5), respectively, and is included in other long-term assets in the consolidated balance sheets. The decrease in fair value related to the interest rate swap asset included in other comprehensive loss for the three months ended March 31, 2019 was $0.6 million. The interest rate swap expires in October 2020 and the total $1.0 million of unrealized gain recorded in accumulated other comprehensive income at March 31, 2019 is not expected to be recorded against interest expense over the next twelve months.

8. Stock-Based Compensation and Employee Benefit Plans

Employee Stock-Based Benefit Plans

At March 31, 2019, the Company had stock-based compensation awards outstanding under the following plans: the 2004 Stock Plan, the 2010 Equity Incentive Plan, as amended, or 2010 Plan, the 2010 Employee Stock Purchase Plan, or ESPP, and plans under which equity incentive awards were assumed in connection with the acquisitions of Entropic in 2015 and Exar Corporation in 2017. Refer to the Company's Annual Report for a summary of the Company's stock-based compensation and equity plans as of December 31, 2018. There have been no material changes to the terms of the Company's equity incentive plans during the three months ended March 31, 2019. All current stock awards are issued under the 2010 Plan and ESPP.

As of March 31, 2019, the number of shares of common stock available for future issuance under the 2010 Plan and awards outstanding under the 2004 Plan was 14,636,122 shares and 416,007 shares, respectively. As of March 31, 2019, the number of shares of common stock available for future issuance under the ESPP was 3,000,253 shares.

Stock-Based Compensation

The Company recognizes stock-based compensation in the consolidated statements of operations, based on the department to which the related employee reports, as follows:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Cost of net revenue	$130	$106
Research and development	4,213	4,374
Selling, general and administrative	3,404	3,993
	$7,747	$8,473

The total unrecognized compensation cost related to unvested restricted stock units and restricted stock awards as of March 31, 2019 was $46.3 million, and the weighted average period over which these equity awards are expected to vest is 2.49 years. The total unrecognized compensation cost related to unvested stock options as of March 31, 2019 was $3.7 million, and the weighted average period over which these equity awards are expected to vest is 2.71 years.

Restricted Stock Units and Restricted Stock Awards

The Company calculates the fair value of restricted stock units based on the fair market value of the Company's common stock on the grant date. Stock based compensation is recognized over the vesting period using the straight-line method.

A summary of the Company’s restricted stock unit and restricted stock award activity is as follows:

	Number of Shares (in thousands)	Weighted-Average Grant-Date Fair Value per Share
Outstanding at December 31, 2018	3,263	$ 20.23
Granted	367	23.51
Vested	(636)	20.83
Canceled	(99)	21.00
Outstanding at March 31, 2019	2,895	20.49

Employee Stock Purchase Rights and Stock Options

The Company uses the Black-Scholes valuation model to calculate the grant-date fair value of employee stock purchase rights and stock options. Stock based compensation expense is recognized over the vesting period using the straight-line method.

Employee Stock Purchase Rights

During the three months ended March 31, 2019, there were no shares of common stock purchased under the ESPP. The fair values of employee stock purchase rights were estimated using the Black-Scholes option pricing model at their respective grant date using the following assumptions:

	Three Months Ended March 31,	
	2019	2018
Weighted-average grant date fair value per share	$5.01	$6.51
Risk-free interest rate	2.51 %	1.39 %
Dividend yield	— %	— %
Expected life (in years)	0.50	0.50
Volatility	38.82 %	36.97 %

The risk-free interest rate assumption was based on rates for United States (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 expected term is the duration of the offering period for each grant date. In addition, the estimated volatility incorporates the historical volatility over the expected term based on the Company's daily closing stock prices.

Stock Options

A summary of the Company’s stock options activity is as follows:

	Number of Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2018	2,659	$ 10.27		
Exercised	(609)	7.08		
Canceled	(7)	20.50		
Outstanding at March 31, 2019	2,043	$ 11.19	2.43	$ 29,376
Vested and expected to vest at March 31, 2019	2,020	$ 11.11	2.39	$ 29,206
Exercisable at March 31, 2019	1,602	$ 9.41	1.50	$ 25,893

No stock options were granted by the Company during the three months ended March 31, 2019.

The intrinsic value of stock options exercised was $9.8 million and $2.1 million in the three months ended March 31, 2019 and 2018, respectively.

Cash received from exercise of stock options was $2.6 million and $1.0 million during the three months ended March 31, 2019 and 2018, respectively.

The tax benefit from stock options exercised was $9.0 million and $2.1 million during the three months ended March 31, 2019 and 2018, respectively.

Employee Incentive Bonus

The Company settles a majority of bonus awards for its employees, including executives, in shares of common stock under the 2010 Equity Incentive Plan. When bonus awards are settled in common stock issued under the 2010 Equity Incentive Plan, the number of shares issuable to plan participants is determined based on the closing price of the Company's common stock as determined in trading on the New York Stock Exchange on a date approved by the Board of Directors. In connection with the Company's bonus programs, in February 2019, the Company issued 0.3 million freely-tradable shares of the Company's common stock in settlement of bonus awards to employees, including executives, for the 2018 performance period. At March 31, 2019, the Company has an accrual of $2.4 million for bonus awards for employees for year-to-date achievement in the 2019 performance period. The Company's compensation committee retains discretion to effect payment in cash, stock, or a combination of cash and stock.

9. Income Taxes

The provision for income taxes primarily relates to projected federal, state, and foreign income taxes. To determine the quarterly provision for income taxes, the Company uses an estimated annual effective tax rate, which is generally based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates. In addition, the tax effects of certain significant or unusual items are recognized discretely in the quarter during which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

The Company utilizes the asset and liability method of accounting for income taxes, under which deferred taxes are determined based on temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the temporary differences reverse. The Company records a valuation allowance to reduce its deferred taxes to the amount it believes is more likely than not to be realized. In making such determination, the Company considers all available positive and negative evidence quarterly, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Forming a conclusion that a valuation allowance is not required is difficult when there is

negative evidence such as cumulative losses in recent years. Based upon the Company's review of all positive and negative evidence, the Company continues to have a valuation allowance on its state deferred taxes, certain of its federal deferred tax assets, and certain foreign deferred tax assets in jurisdictions where the Company has cumulative losses or otherwise is not expected to utilize certain tax attributes. The Company does not incur expense or benefit in certain tax free jurisdictions in which it operates.

The Company recorded an income tax benefit of $6.5 million in the three months ended March 31, 2019 and an income tax benefit of $1.9 million for the three months ended March 31, 2018.
The income tax benefit in the three months ended March 31, 2019 and 2018, each primarily relates to the mix of pre-tax income among jurisdictions, discrete tax benefits related to stock-based compensation, and release of uncertain tax positions under ASC 740-10.

Income tax positions must meet a more-likely-than-not threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first financial reporting period in which that threshold is no longer met. The Company records potential penalties and interest accrued related to unrecognized tax benefits within the consolidated statements of operations as income tax expense.

During the three months ended March 31, 2019, the increase in unrecognized tax benefits was not material. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months. Accrued interest and penalties associated with uncertain tax positions as of March 31, 2019 were approximately $0.7 million and $0.1 million, respectively.
The Company is subject to federal and state income tax in the United States and is also subject to income tax in various states and foreign tax jurisdictions. At March 31, 2019, the Company’s tax years for 2014, 2013, and 2010 and forward are subject to examination by federal, state, and foreign tax authorities, respectively. The Company is under a routine compliance review by the Inland Revenue Authority of Singapore for its 2016 and 2017 tax years. The Company does not expect these reviews to have a material effect on its consolidated financial position or results of operations. In addition, the examination by the California Franchise Tax Board for the 2014 and 2015 tax years was closed during the quarter ended March 31, 2019 without any adjustments.
The Company's subsidiary in Singapore operates under certain tax incentives in Singapore, which are generally effective through March 2022, and are conditional upon meeting certain employment and investment thresholds in Singapore. Under the incentives, qualifying income derived from certain sales of the Company's integrated circuits is taxed at a concessionary rate over the incentive period, and there are reduced Singapore withholding taxes on certain intercompany royalties during the incentive period. Primarily because of the Company's Singapore net operating losses and a full valuation allowance in Singapore, the incentives did not have a material impact on the Company's income tax benefit in the three months ended March 31, 2019.

10. Concentration of Credit Risk, Significant Customers and Revenue by Geographic Region

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. Collateral is generally not required for customer receivables. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. At times, such deposits may be in excess of insured limits. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Significant Customers

The Company markets its products and services to manufacturers of a wide range of electronic devices (Note 1). The Company makes periodic evaluations of the credit worthiness of its customers.

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Customers comprising greater than 10% of net revenues for each of the periods presented are as follows:

	Three Months Ended March 31,	
	2019	2018
Percentage of total net revenue		
Customer A	12 %	27 %

Balances that are 10% or greater of accounts receivable, based on the Company's billings to the contract manufacturer customers, are as follows:

	March 31, 2019	December 31, 2018
Percentage of gross accounts receivable		
Customer B	*	10 %
Customer C	11 %	*

*Represents less than 10% of the gross accounts receivable as of the respective period end.

Significant Suppliers

Suppliers comprising greater than 10% of total inventory purchases are as follows:

	Three Months Ended March 31,	
	2019	2018
Vendor A	19 %	14 %
Vendor B	14 %	19 %
Vendor C	13 %	16 %
Vendor D	*	21 %

*Represents less than 10% of the inventory purchases for the respective period.

Geographic Information

The Company's consolidated net revenues by geographic area based on ship-to location are as follows (in thousands):

	Three Months Ended March 31,			
	2019		2018	
	Amount	% of total net revenue	Amount	% of total net revenue
Asia	$71,548	85 %	$84,814	77 %
United States	4,352	5 %	5,195	5 %
Rest of world	8,735	10 %	20,818	19 %
Total	$84,635	100 %	$110,827	100 %

The products shipped to individual countries representing greater than 10% of net revenue for each of the periods presented are as follows:

	Three Months Ended March 31,	
	2019	2018
Percentage of total net revenue		
China	67 %	61 %

The determination of which country a particular sale is allocated to is based on the destination of the product shipment. No other individual country accounted for more than 10% of net revenue during these periods.
Long-lived assets, which consists of property and equipment, net, leased right-of-use assets, intangible assets, net, and goodwill by geographic area are as follows (in thousands):

	March 31, 2019		December 31, 2018[(1)]	
	Amount	% of total	Amount	% of total
United States	$430,879	85 %	$426,321	85 %
Singapore	70,289	14 %	71,945	14 %
Rest of world	6,326	1 %	3,368	1 %
Total	$507,494	100%	$501,634	100%

(1) Amounts do not include leased right-of-use assets in the prior period due to the adoption of ASC 842 under the modified retrospective method with a cumulative effect adjustment to accumulated deficit as of January 1, 2019.

11. Revenue from Contracts with Customers

Revenue by Market

The table below presents disaggregated net revenues by market (in thousands):

	Three Months Ended March 31,	
	2019	2018
Connected home	$43,432	$65,658
% of net revenue	51 %	59 %
Infrastructure	22,102	20,490
% of net revenue	26 %	19 %
Industrial and multi-market	19,101	24,679
% of net revenue	23 %	22 %
Total net revenue	$84,635	$110,827

Revenues from sales through the Company’s distributors accounted for 41% and 39% of net revenue for the three months ended March 31, 2019 and 2018, respectively.

Contract Liabilities

As of March 31, 2019, customer contract liabilities consist of estimates of obligations to deliver rebates to customers in the form of units of products and were approximately $0.1 million. Revenue recognized in the three months ended March 31, 2019 that was included in the contract liability balance as of December 31, 2018 was immaterial.
There were no material changes in the contract liabilities balance during the three months ended March 31, 2019.

Obligations to Customers for Price Adjustments and Returns and Assets for Right-of-Returns
As of March 31, 2019, obligations to customers consisting of estimates of price protection rights offered to the Company's end customers totaled $18.9 million and are included in accrued price protection liability in the consolidated balance sheets. For activity in this account, including amounts included in net revenue, refer to Note 6. Other obligations to customers representing estimates of price adjustments to be claimed by distributors upon sell-through of their inventory to their end customer and estimates of stock rotation returns to be claimed by distributors on products sold as of March 31, 2019 were $7.3 million and $2.0 million, respectively, and are included in accrued expenses and other current liabilities in the consolidated balance sheets (Note 6). The increase in revenue from net changes in transaction prices for amounts included in obligations to customers for price adjustments as of January 1, 2018 was not material. As of March 31, 2019, right of return assets under customer contracts representing the estimates of product inventory the Company expects to receive from customers in stock rotation returns were approximately $0.3 million. Right of return assets are included in inventory in the consolidated balance sheets (Note 6).
As of March 31, 2019, there were no impairment losses recorded on customer accounts receivable.

12. Leases

The Company primarily leases office facilities under operating lease arrangements expiring at various years through 2023. These leases often have original terms of 3 to 5 years and contain options to extend the lease up to 5 years or terminate the lease, which are included in right-of-use assets and lease liabilities when the Company is reasonably certain it will renew the underlying leases. Since the implicit rate of such leases is unknown and the Company is not reasonably certain to renew its leases, the Company has elected to apply a collateralized incremental borrowing rate to facility leases on the original lease term in calculating the present value of future lease payments. As of March 31, 2019, the weighted average discount rate for operating leases was 5.0% and the weighted average remaining lease term for operating leases was 3.3 years.
The table below presents aggregate future minimum payments due under leases for the next five years and beyond, reconciled to total lease liabilities included in the consolidated balance sheet as of March 31, 2019:

	Operating Leases (in thousands)
2019 (9 months)	$ 6,484
2020	8,853
2021	8,595
2022	3,784
2023	1,021
Thereafter	—
Total minimum payments	28,737
Less: imputed interest	(2,336)
Less: unrealized translation loss	(236)
Total lease liabilities	26,165
Less: short-term lease liabilities	(8,033)
Long-term lease liabilities	$ 18,132

Operating lease cost was $0.9 million and $1.2 million for the three months ended March 31, 2019 and 2018, respectively. Short-term lease costs for the three months ended March 31, 2019 were not material. There were no right-of-use assets obtained in exchange for new liabilities for the three months ended March 31, 2019.

The Company has subleased certain facilities that it ceased using in connection with prior years' restructuring plans (Note 3). Such subleases expire at various years through fiscal 2023. As of March 31, 2019, future minimum rental income under non-cancelable subleases is as follows:

	Amount (in thousands)
2019 (9 months)	$ 2,946
2020	4,036
2021	4,057
2022	782
2023	291
Thereafter	—
Total minimum rental income	$ 12,112

Total sublease income related to leased facilities the Company ceased using in connection with a restructuring plan for the three months ended March 31, 2019 and 2018 was approximately $0.6 million and $0.7 million, respectively (Note 3).

13. Commitments and Contingencies

Inventory Purchase and Other Contractual Obligations

As of March 31, 2019, future minimum payments under inventory purchase and other obligations are as follows:

	Inventory Purchase Obligations	Other Obligations	Total
2019 (9 months)	$ 68,866	$ 6,122	$74,988
2020	—	4,574	4,574
2021	—	843	843
2022	—	425	425
2023	—	447	447
Thereafter	—	—	—
Total minimum payments	$ 68,866	$ 12,411	$81,277

Other obligations consist of contractual payments due for software licenses.

CrestaTech Litigation

As disclosed in the Annual Report, the Company was a defendant in patent litigation originally filed by CrestaTech Technology Corporation, or CrestaTech. On January 21, 2014, CrestaTech filed a complaint for patent infringement against the Company in the United States District Court of Delaware, or District Court Litigation, alleging that the Company infringed U.S. Patent Nos. 7,075,585, or the '585 Patent and 7,265,792, or the '792 Patent. In addition to asking for compensatory damages, CrestaTech alleged willful infringement and sought a permanent injunction. CrestaTech also named Sharp Corporation, Sharp Electronics Corp. and VIZIO, Inc. as defendants based upon their alleged use of the Company's television tuners. Following the litigation history described in the Company's prior filings on Form 10-K and Form 10-Q, the District Court dismissed the District Court Litigation in April 2018. While the successor plaintiff following a Chapter 7 bankruptcy proceeding of CrestaTech below has suggested that the dismissal may have been in error, it has taken no action to re-instate the case. In the related bankruptcy proceeding, the plaintiff stated that it "no longer has any valid patent claims that it is asserting in any of the proceedings purchased through the Sale Agreement," which includes the District Court Litigation against the Company. In re Cresta Technology Corporation, Case No. 16-50808 (N.D. Cal. Bank. 2016) at Dkt. No. 270. At this time, the Company cannot predict whether the District Court litigation will be re-instated. In addition, outside the District Court Litigation, the Company and the successor to CrestaTech are continuing to dispute certain matters relating to the '585

Patent through the inter parties review (IPR) and potential appeal process. Any re-instatement of the District Court Litigation, material expenses associated with the IPR and potential appeal process, or other costs arising from the dispute between the parties could adversely affect the Company's operating results.

Trango Systems, Inc. Litigation

On or about August 2, 2016, Trango Systems, Inc., or Trango, filed a complaint in the Superior Court of California, County of San Diego, Central Division, against defendants Broadcom Corporation, Inc., or Broadcom, and the Company, collectively, Defendants. Trango is a purchaser that alleges various fraud, breach of contract, and interference with economic relations claims in connection with the discontinuance of a chip line the Company acquired from Broadcom in 2016. Trango seeks unspecified general and special damages, pre-judgment interest, expenses and costs, attorneys’ fees, punitive damages, and unspecified injunctive and equitable relief. On June 23, 2017, the Court sustained the Company's demurrer to each cause of action in the second amended complaint filed on or about December 6, 2016. Trango filed its third amended complaint on or about July 13, 2017. On February 23, 2018, the Court sustained, in part, the Company's demurrer, dismissing with prejudice the cause of action for breach of a written contract, and Trango voluntarily dismissed its cause of action for breach of an implied-in-fact contract. The remaining causes of action have been permitted to proceed. On March 15, 2018, Trango filed its fourth amended complaint. The Company filed its answer on April 17, 2018. Also, on April 17, 2018, Broadcom filed a cross-complaint against the Company, alleging causes of action for indemnity, contribution and apportionment, and declaratory relief. Broadcom voluntarily dismissed the cross-complaint on June 8, 2018. On December 10, 2018, the Company filed a motion for summary judgment, or in the alternative summary adjudication concerning all of Trango’s causes of action asserted against the Company; on April 5, 2019, the Court granted that motion, in part, dismissing Trango’s fraud-based claims against the Company (specifically, claims for intentional fraud, promissory fraud/false promise, fraud by concealment, and negligent misrepresentation). The trial date has been continued and is now set for August 9, 2019. The Company intends to continue to vigorously defend against the lawsuit as it proceeds.

The Company cannot predict the outcome of the Trango Systems, Inc. litigation. Any adverse determination in the Trango Systems, Inc. litigation could have a material adverse effect on the Company's business and operating results.

Other Matters

In addition, from time to time, the Company is subject to threats of litigation or actual litigation in the ordinary course of business, some of which may be material. Other than the CrestaTech and Trango litigation described above, the Company believes that there are no other currently pending litigation matters that, if determined adversely to the Company's interests, would have a material effect on the Company's business or that would not be covered by the Company's existing liability insurance.

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

Forward-Looking Statements

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” included elsewhere in this report.

Overview

We are a provider of radio-frequency, or RF, high-performance analog, and mixed-signal communications systems-on-chip solutions for the connected home, wired and wireless infrastructure, and industrial and multi-market applications. We are a fabless integrated circuit design company whose products integrate all or substantial portions of a broadband communication system. In most cases, these products are designed on a single silicon-die, using standard digital CMOS processes and conventional packaging technologies. We believe this enables our solutions to achieve superior power, performance, and cost advantages relative to our industry competition. Our customers include electronics distributors, module makers, original equipment manufacturers (OEMs), and original design manufacturers (ODMs), who incorporate our products in a wide range of electronic devices. Examples of such end market electronic

devices incorporating our products include cable DOCSIS broadband modems and gateways; wireline connectivity devices for in-home networking applications; RF transceivers and modems for wireless carrier access and backhaul infrastructure; fiber-optic modules for data center, metro, and long-haul transport networks; video set-top boxes and gateways; hybrid analog and digital televisions, direct broadcast satellite outdoor and indoor units; and power management and interface products used in these and a range of other markets.

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We combine our high-performance RF and mixed-signal semiconductor design skills with our expertise in digital communications systems, software, high-performance analog, and embedded systems to provide highly integrated semiconductor devices and platform-level solutions that are manufactured using a range of semiconductor manufacturing processes, including low-cost complementary metal oxide semiconductor, or CMOS, process technology, Silicon Germanium, Gallium Arsenide, BiCMOS and Indium Phosphide process technologies. Our ability to design analog and mixed-signal circuits in CMOS allows us to efficiently combine analog and digital signal processing functionality in the same integrated circuit. As a result, our solutions have high levels of functional integration and performance, small silicon die size, and low power consumption. Moreover, we are uniquely positioned to offer customers a combination of proprietary CMOS-based radio system architectures that provide the benefits of superior RF system performance, along with high-performance analog interface and power management solutions that enable shorter design cycles, significant design flexibility, and low system cost across a wide range of broadband communications, wired and wireless infrastructure, and industrial and multimarket applications.

Our net revenue has grown from approximately $119.6 million in fiscal 2013 to $385.0 million in fiscal 2018. In the three months ended March 31, 2019, revenues were $84.6 million. In fiscal 2018 and the three months ended March 31, 2019, our net revenue was derived primarily from sales of RF receivers and RF receiver systems-on-chip and connectivity solutions into broadband operator voice and data modems and gateways and connectivity adapters, global analog and digital RF receiver products for analog and digital pay-TV applications, radio and modem solutions into wireless carrier access and backhaul infrastructure platforms, high-speed optical interconnect solutions sold into optical modules for data-center, metro and long-haul networks, and high-performance interface and power management solutions into a broad range of communications, industrial, automotive and multi-market applications.

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, data modems, and gateways for the broadband service provider and Pay-TV industries, manufacturers selling into the smartphone market, storage networking market, cable infrastructure market, industrial and automotive markets, and optical module and telecommunications infrastructure markets.

Products shipped to Asia accounted for 85% and 77% of net revenue during the three months ended March 31, 2019 and 2018, respectively, including 67% and 61%, respectively, from products shipped to China. Although a large percentage of our products is shipped to Asia, we believe that a significant number of the systems designed by these customers and incorporating our semiconductor products are then sold outside Asia. For example, we believe revenue generated from sales of our digital terrestrial set-top box products during the three months ended March 31, 2019 and 2018 related principally to sales to Asian set-top box manufacturers delivering products into Europe, Middle East, and Africa, or EMEA markets. Similarly, revenue generated from sales of our cable modem products during the three months ended March 31, 2019 and 2018 related principally to sales to Asian ODMs and contract manufacturers delivering products into European and North American markets. To date, all of our sales have been denominated in United States dollars. There is a growing portion of our business, related specifically to our high-speed optical interconnect products, that are shipped to, and are ultimately consumed in Asian markets, with the majority of these products being purchased by end customers in China.

A significant portion of our net revenue has historically been generated by a limited number of customers. In the three months ended March 31, 2019, one of our customers, Arris (which was recently acquired by CommScope Holding Company, Inc.) accounted for 12% of our net revenue, and our ten largest customers collectively accounted for 60% of our net revenue. In the three months ended March 31, 2018, one of our customers, Arris, accounted for 27% of our net revenue, and our ten largest customers collectively accounted for 63% of our net revenue. For certain customers, we sell multiple products into disparate end user applications such as cable modems, satellite set-top boxes and broadband gateways.

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 hybrid television market, a design-in can have a

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product life cycle of 9 to 18 months. In the terrestrial retail digital set-top box market, a design-in can have a product life cycle of 18 to 24 months. In the cable operator modem and gateway sectors, a design-in can have a product life cycle of 24 to 48 months. In the industrial and wired and wireless infrastructure markets, a design-in can have a product life cycle of 24 to 60 months and beyond.

Critical Accounting Policies and Estimates

Management’s discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements which are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these consolidated 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 consolidated 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, goodwill and other intangible assets 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.

We believe that accounting policies we have identified as critical involve a greater degree of judgment and complexity than our other accounting policies. Accordingly, these are the policies we believe are the most critical to understanding and evaluating our consolidated financial condition and results of operations.

For a summary of our critical accounting policies and estimates, refer to Management's Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2018, which we filed with the Securities and Exchange Commission, or SEC, on February 5, 2019, or our Annual Report. There have been no material changes to our critical accounting policies and estimates during the three months ended March 31, 2019.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this update require a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset. For leases less than twelve months, an entity is permitted to make an accounting policy election by class of underlying asset not to recognize right-of-use assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. We have made this election. Also, in July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, to provide an additional transition method. An entity can elect not to present comparative financial information under Topic 842 if it recognizes a cumulative-effect adjustment to retained earnings upon adoption. We have also made this election. Further, in January 2019, the FASB issued ASU 2019-01, Leases (Topic 842): Codification Improvements, which clarified that post-adoption interim transition disclosures normally required in the year of adoption for the effect of a change in accounting principle on an entity’s financial statements are not required for the adoption of ASC 842. The amendments in these updates are effective for us for fiscal years beginning with 2019, including interim periods within those years, with early adoption permitted. We have completed our assessment of the impact of the adoption of ASC 842. Upon adoption, we recognized approximately $24.8 million of right-of-use assets and a net increase of $25.1 million in lease-related liabilities at January 1, 2019. Also, the impact of the adoption of ASC 842 on our accumulated deficit and deferred tax assets at January 1, 2019 was not material. Lastly, the impact of the adoption of ASC 842 on our consolidated results of operations for the year ending December 31, 2019 is not expected to be material.

In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases, to clarify on how to apply certain aspects of the new lease accounting standard. The amendments in this update, among other things, better articulates the requirement for a lessee's reassessment of lease classification as of the effective date of a modification, clarifies that a change to an index or rate for variable lease payments does not constitute a resolution of a contingency that would result in the remeasurement of lease payments, and requires entities that apply Topic 842 retrospectively to each reporting period and do not adopt the practical expedients to write off any prior unamortized

initial direct costs that do not meet the definition under Topic 842 to equity. The amendments in this update have the same effective date and transition requirements as the new lease standard summarized above. We have disclosed the impact of adoption of Topic 842 on our consolidated financial position and results of operations as stated above.

In July 2018, the FASB issued ASU No. 2018-09, Codification Improvements, to clarify the Codification and prevent unintended application of the guidance. An amendment to ASC 718-740, Compensation—Stock Compensation—Income Taxes,

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clarifies that excess tax benefits should be recognized in the period in which the amount of the deduction is determined. The transition and effective date guidance is based on the facts and circumstances of each amendment. The amendment identified above will be effective for us beginning with fiscal year 2019. The adoption of the amendments in this update in the three months ended March 31, 2019 did not have a material impact on our consolidated financial position and results of operations.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815), which is intended to improve accounting for hedging activities by expanding and refining hedge accounting for both nonfinancial and financial risk components and aligning the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this update became effective for us for fiscal years beginning with fiscal year 2019, including interim periods within those years, with early adoption permitted in any interim period. The amendments in this update were required to be applied prospectively. The adoption of the amendments in this update in the three months ended March 31, 2019 did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if the reporting unit had been acquired in a business combination. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. The amendments in this update are effective for us beginning with fiscal year 2020, including interim periods, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of the amendments in this update is not expected to have a material impact on our consolidated financial position and results of operations.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, to improve the fair value measurement reporting of financial instruments. The amendments in this update require, among other things, added disclosure of the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update eliminate, among other things, disclosure of the reasons for and amounts of transfers between Level 1 and Level 2 for assets and liabilities that are measured at fair value on a recurring basis and an entity's valuation processes for Level 3 fair value measurements. The amendments in this update will be effective for us beginning with fiscal year 2020, with early adoption permitted. Retrospective application is required for all amendments in this update except the added disclosures, which should be applied prospectively. The adoption of the amendments in this update is not expected to have a material impact on our consolidated financial position and results of operations.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles- Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, to provide additional guidance on the accounting for costs of implementing cloud computing arrangements that are service contracts. The amendments in this update require the capitalization of implementation costs during the application development stage of such hosting arrangements and amortization of the expense over the term of the arrangement including any option to extend reasonably certain to be exercised or option to terminate reasonably certain not to be exercised. Capitalized implementation costs and amortization thereof are also required to be classified in the same line item in the statements of financial position, operations and cash flows associated with

the hosting service fees. The amendments in this update will be effective for us beginning with fiscal year 2020, with early adoption permitted. Entities may select retrospective or prospective application to all implementation costs incurred after the adoption date. The adoption of the amendments in this update is not expected to have a material impact on our consolidated financial position and results of operations.

Results of Operations

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

Net Revenue. Net revenue is generated from sales of radio-frequency, analog and mixed signal integrated circuits for the connected home, wired and wireless infrastructure, and industrial and multi-market applications. A significant portion of our sales are to distributors, who then resell our products.

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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 acquired developed technology intangible assets; 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, amortization of certain acquired intangible assets, third-party sales commissions, field application engineering support, travel costs, professional and consulting fees, legal fees, depreciation expense and allocated occupancy costs.

Restructuring Charges. Restructuring charges consist of severance, lease and leasehold impairment charges, and other charges related to restructuring plans.

Interest and Other Income (Expense), Net. Interest and other income (expense), net includes interest income, interest expense and other income (expense). Interest income consists of interest earned on our cash, cash equivalents and restricted cash balances. Interest expense consists of interest accrued on debt. Other income (expense) generally consists of income (expense) generated from non-operating transactions.

Income Tax Benefit. We make certain estimates and judgments in determining income taxes 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.

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The following table sets forth our consolidated statement of operations data as a percentage of net revenue for the periods indicated:

	Three Months Ended March 31,	
	2019	2018
Net revenue	100 %	100 %
Cost of net revenue	47	43
Gross profit	53	57
Operating expenses:		
Research and development	32	28
Selling, general and administrative	28	24
Restructuring charges	2	—
Total operating expenses	63	53
Income (loss) from operations	(9)	4
Total interest and other income (expense), net	(4)	(4)
Loss before income taxes	(13)	—
Income tax benefit	(8)	(2)
Net income (loss)	(6)%	2 %

Net Revenue

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Connected home	$43,432	$65,658	$(22,226)	(34)%
% of net revenue	51 %	59 %		
Infrastructure	22,102	20,490	1,612	8 %
% of net revenue	26 %	19 %		
Industrial and multi-market	19,101	24,679	(5,578)	(23)%
% of net revenue	23 %	22 %		
Total net revenue	$84,635	$110,827	$(26,192)	(24 %)

Net revenue decreased $26.2 million to $84.6 million for the three months ended March 31, 2019, as compared to $110.8 million for the three months ended March 31, 2018. The decrease in connected home net revenue of $22.2 million was driven by a slowdown in the cable market, which impacted both cable and related MoCA product shipments, owing to the market transition from DOCSIS 3.0 to DOCSIS 3.1 and related customer inventory reductions, partially offset by increased satellite product shipments. The increase in infrastructure revenues of $1.6 million was primarily driven by increased high performance analog shipments in this category. The decrease in industrial and multi-market revenue of $5.6 million was related to decreased shipments of high performance analog products in this category.

We currently expect that revenue will fluctuate in the future, from period-to-period, based on evolving customer demand for existing products, the pace of adoption of newer products, and macroeconomic conditions.

Cost of Net Revenue and Gross Profit

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Cost of net revenue	$39,558	$48,159	$(8,601)	(18)%

% of net revenue	47	%	43	%		
Gross profit	45,077		62,668		(17,591)	(28)%
% of net revenue	53	%	57	%		

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Cost of net revenue decreased $8.6 million to $39.6 million for the three months ended March 31, 2019, as compared to $48.2 million for the three months ended March 31, 2018. The decrease was primarily driven by lower sales. The decrease in gross profit percentage for the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, was due to lower revenue and product mix.

We currently expect that gross profit percentage will fluctuate in the future, from period-to-period, based on changes in product mix, average selling prices, and average manufacturing costs.

Research and Development

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Research and development	$27,399	$31,121	(3,722)	(12)%
% of net revenue	32 %	28 %		

Research and development expense decreased $3.7 million to $27.4 million for the three months ended March 31, 2019 from $31.1 million in the three months ended March 31, 2018. The decrease was primarily due to decreases in payroll-related expenses of $2.0 million due to lower headcount, depreciation expense of $0.6 million as a result of certain machinery and equipment reaching the end of their useful lives, prototype expenses of $0.6 million, and occupancy expenses of $0.3 million due to termination of certain leases.

We expect our research and development expenses to decrease or remain flat in the near term; however our expenses are likely to increase in the future as we continue to grow our business in building follow up products and expanding our product portfolio.

Selling, General and Administrative

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Selling, general and administrative	$23,591	$27,117	(3,526)	(13)%
% of net revenue	28 %	24 %		

Selling, general and administrative expense decreased $3.5 million to $23.6 million for the three months ended March 31, 2019, as compared to $27.1 million for the three months ended March 31, 2018. The decrease was primarily due to a decrease in intangible asset amortization of $2.2 million as certain assets reached the end of their useful lives, as well as decreases in payroll-related expense of $0.8 million due to lower headcount and professional fees of $0.5 million.

We expect selling, general and administrative expenses to decrease or remain flat in the near-term; however, our expenses may increase in the future when we expand our sales and marketing organization to enable expansion into existing and new markets.

Restructuring charges

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Restructuring charges	$ 1,917	$ —	1,917	100 %
% of net revenue	2 %	—%		

Restructuring charges increased $1.9 million to $1.9 million for the three months ended March 31, 2019, compared to $0 for the three months ended March 31, 2018.

Restructuring charges in 2019 primarily consisted of lease restructuring charges of $1.3 million related to exiting certain redundant facilities and severance-related charges of $0.5 million in connection with employee separation expenses.

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Interest and Other Income (Expense)

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Interest and other income (expense), net	$(3,483)	$(4,447)	964	(22)%
% of net revenue	(4)%	(4)%		

Interest and other income (expense), net changed by $1.0 million from a net expense of $4.4 million in the three months ended March 31, 2018 to a net expense of $3.5 million for the three months ended March 31, 2019. The change in interest and other income (expense), net was primarily due to a decrease in interest expense of $0.9 million related to interest charges on a lower average balance of debt outstanding under our term loan facility during the period.

Income Tax Benefit

	Three Months Ended March 31,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Income tax benefit	$(6,462)	$(1,864)	(4,598)	247 %

The income tax benefit for the three months ended March 31, 2019 was $6.5 million or approximately 57% of pre-tax loss compared to an income tax benefit of $1.9 million for the three months ended March 31, 2018.

The income tax benefit for the three months ended March 31, 2019 and 2018 each primarily related to the mix of pre-tax income among jurisdictions, discrete tax benefits related to stock-based compensation, and release of certain foreign reserves for uncertain tax positions under ASC 740-10.

We continue to maintain a valuation allowance to offset state and certain federal and foreign deferred tax assets, as realization of such assets does not meet the more-likely-than-not threshold required under accounting guidelines. In making such determination, we consider all available positive and negative evidence quarterly, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based upon our review of all positive and negative evidence, we continue to have a valuation allowance on state deferred tax assets, certain federal deferred tax assets, and certain foreign deferred tax assets in jurisdictions where we have cumulative losses or otherwise are not expected to utilize certain tax attributes. We do not incur income tax expense or benefit in certain tax-free jurisdictions in which we operate.

Our subsidiary in Singapore operates under certain tax incentives in Singapore, which are generally effective through March 2022 and may be extended through March 2027. Under these incentives, qualifying income derived from certain sales of our integrated circuits is taxed at a concessionary rate over the incentive period. We also receive a reduced withholding tax rate on certain intercompany royalty payments made by our Singapore subsidiary during the incentive period. Such incentives are conditional upon our meeting certain minimum employment and investment thresholds within Singapore over time, and we may be required to return certain tax benefits in the event we do not achieve compliance related to that incentive period. We currently believe that we will be able to satisfy these conditions without material risk. Primarily because of our Singapore net operating losses and our full valuation allowance in Singapore, we do not believe the incentives will have a material impact on our income tax position in the year ending December 31, 2019.

Liquidity and Capital Resources

As of March 31, 2019, we had cash and cash equivalents of $71.1 million, restricted cash of $0.8 million and net accounts receivable of $59.6 million. Additionally, as of March 31, 2019, our working capital was $105.8 million.

Our primary uses of cash are to fund operating expenses, purchases of inventory, property and equipment, intangible assets, and from time to time, the acquisition of businesses. We also use cash to pay down outstanding debt. Our cash

and cash equivalents are impacted by the timing of when we pay expenses as reflected in the change in our outstanding accounts payable and accrued expenses. Cash used to fund operating expenses in our consolidated statements of cash flows excludes the impact of non-cash items such as stock-based compensation, amortization and depreciation of acquired intangible assets and property and equipment, and impairment of intangible assets and long-lived assets. Cash used to fund capital purchases is included in investing activities in our consolidated statements of cash flows. Cash used to pay down outstanding debt is included in financing activities in our consolidated statements of cash flows.

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Our primary sources of cash are cash receipts on accounts receivable from our shipment of products to distributors and direct customers. Aside from the amounts billed to our customers, net cash collections of accounts receivable are impacted by the efficiency of our cash collections process, which can vary from period to period depending on the payment cycles of our major distributor customers, and relative linearity of shipments period-to-period. Our credit agreement, under which we entered into a term loan to partially fund our acquisition of Exar, permits us to request incremental loans in an aggregate principal amount not to exceed the sum of $160.0 million (subject to adjustments for any voluntary prepayments), plus an unlimited amount that is subject to pro forma compliance with certain secured leverage ratio and total leverage ratio tests. We have not requested any incremental loans to date.

Following is a summary of our working capital, cash and cash equivalents, and restricted cash for the periods indicated:

	March 31, 2019	December 31, 2018
	(in thousands)	
Working capital	$105,837	$110,044
Cash and cash equivalents	$71,102	$73,142
Short-term restricted cash	347	645
Long-term restricted cash	418	404
Total cash, cash equivalents and restricted cash	$71,867	$74,191

Following is a summary of our cash flows provided by (used in) operating activities, investing activities and financing activities for the periods indicated:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Net cash provided by operating activities	$16,045	$11,971
Net cash used in investing activities	(2,155)	(2,381)
Net cash used in financing activities	(16,791)	(26,411)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	577	(258)
Decrease in cash, cash equivalents and restricted cash	$(2,324)	$(17,079)

Cash Flows from Operating Activities

Net cash provided by operating activities was $16.0 million for the three months ended March 31, 2019. Net cash provided by operating activities consisted of positive cash flow from $26.4 million in non-cash expenses and $2.8 million in changes in operating assets and liabilities, partially offset by deferred income taxes and excess tax benefits from stock-based compensation of $8.2 million and net loss of $4.9 million. Non-cash items included in net loss for the three months ended March 31, 2019 primarily included depreciation and amortization of property, equipment, acquired intangible assets and leased right-of-use assets of $16.9 million and stock-based compensation of $7.7 million. During the first quarter of 2019, we also exited certain leased facilities, which resulted in impairments of leased right-of-use assets of $2.2 million and leasehold improvements of $1.4 million, which was partially offset by a gain on extinguishment of related lease liabilities of $2.9 million.

Net cash provided by operating activities was $12.0 million for the three months ended March 31, 2018. Net cash provided by operating activities for this period primarily consisted of positive cash flow from adding back $29.3 million in non-cash operating expenses to net income of $1.8 million, partially offset by $16.1 million in changes in operating assets and liabilities, and $3.1 million in deferred income taxes and excess tax benefits on stock-based awards. Non-cash operating expense items included in net income for the three months ended March 31, 2018 primarily consisted of depreciation and amortization of property, equipment and acquired intangible assets of $20.1 million, stock-based compensation of $8.5 million, and losses on foreign currency of $0.5 million.

Cash Flows from Investing Activities

Net cash used in investing activities was $2.2 million for the three months ended March 31, 2019 and consisted entirely of purchases of property and equipment.

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Net cash used in investing activities was $2.4 million for the three months ended March 31, 2018 and consisted entirely of purchases of property and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was $16.8 million for the three months ended March 31, 2019. Net cash used in financing activities consisted primarily of cash outflows from aggregate principal prepayments of debt of $15.0 million and $4.4 million in minimum tax withholding paid on behalf of employees for restricted stock units, partially offset by cash inflows of $2.6 million in net proceeds from issuance of common stock upon exercise of stock options.

Net cash used in financing activities was $26.4 million for the three months ended March 31, 2018 and consisted primarily of cash outflows from aggregate prepayments of principal of $25.0 million on outstanding debt and $2.4 million in minimum tax withholding paid on behalf of employees related to vesting of restricted stock units and issuance of stock for bonus awards, partially offset by cash inflows from $1.0 million in net proceeds from issuance of common stock.

We believe that our $71.1 million of cash and cash equivalents at March 31, 2019 will be sufficient to fund our projected operating requirements for at least the next twelve months. We have repaid $178.0 million of debt to date. The credit agreement permits the Company to request incremental loans in an aggregate principal amount not to exceed the sum of $160.0 million (subject to adjustments for any voluntary prepayments), plus an unlimited amount that is subject to pro forma compliance with certain secured leverage ratio and total leverage ratio tests. Incremental loans are subject to certain additional conditions, including obtaining additional commitments from the lenders then party to the credit agreement or new lenders. The term loan facility has a seven-year term and bears interest at either an Adjusted LIBOR or an Adjusted Base Rate, at our option, plus a fixed applicable margin.

Our cash and cash equivalents in recent years have been favorably affected by our implementation of an equity-based bonus program for our employees, including executives. In connection with that bonus program, in February 2019, we issued 0.3 million freely-tradable shares of our common stock in settlement of bonus awards for the 2018 performance period. We expect to implement a similar equity-based plan for fiscal 2019, but our compensation committee retains discretion to effect payment in cash, stock, or a combination of cash and stock.

Notwithstanding the foregoing, we may need to raise additional capital or incur additional indebtedness to fund strategic initiatives or operating activities, particularly if we continue to pursue acquisitions. 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 or execute our strategic plans.

Warranties and Indemnifications

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 certificate of incorporation and bylaws require us to indemnify our officers and directors against any action that may 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.

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 March 31, 2019, we were not involved in any unconsolidated SPE transactions.

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Contractual Obligations

As of March 31, 2019, future minimum payments under long-term debt, non-cancelable operating leases, inventory purchase obligations and other obligations were as follows:

	Payments due				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Long-term debt obligations	$247,000	$—	$—	$—	$247,000
Operating lease obligations	28,737	6,484	17,448	4,805	—
Inventory purchase obligations	68,866	68,866	—	—	—
Other obligations	12,411	6,122	5,417	872	—
Total	$357,014	$81,472	$22,865	$5,677	$247,000

Other obligations consist of contractual payments due for software licenses.

Our consolidated balance sheet at March 31, 2019 included $6.6 million in other long-term liabilities for uncertain tax positions, some of which may result in cash payment. The future payments related to uncertain tax positions recorded as other long-term liabilities have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities.
Other than disclosed above, there have been no other material changes during the three months ended March 31, 2019 to our contractual obligations disclosed in our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2018.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

Foreign Currency Risk

To date, our international customer and vendor agreements have been denominated mostly 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. A hypothetical change of 100 basis points in such foreign currency exchange rates would result in a change to translation gain/loss in accumulated other comprehensive income of approximately $0.3 million.

Interest Rate Risk

On May 12, 2017, we entered into a credit agreement with certain lenders and a collateral agent in connection with the acquisition of Exar Corporation. The credit agreement provides for an initial secured term B loan facility (the "Initial Term Loan") in an aggregate principal amount of $425.0 million. As of March 31, 2019, aggregate borrowings under the Initial Term Loan were $247.0 million. The credit agreement permits the Company to request incremental loans in an aggregate principal amount not to exceed the sum of $160.0 million (subject to adjustments for any voluntary prepayments), plus an unlimited amount that is subject to pro forma compliance with certain secured leverage ratio and total leverage ratio tests. Incremental loans are subject to certain additional conditions, including obtaining additional commitments from the lenders then party to the credit agreement or new lenders. The term loan facility has a seven-year term and bears interest at either an Adjusted LIBOR or an Adjusted Base Rate, at our option, and, in each case, plus a fixed applicable margin. In November 2017, to hedge a substantial portion of our existing interest rate risk with respect to the term loans, we entered into a fixed-for-floating interest rate swap agreement with an amortizing notional amount to swap some of our variable rate interest payments under our term loans for fixed interest payments bearing an interest rate of 1.74685% through October 2020. Our outstanding debt is still subject to a 2.5% fixed applicable margin during the term of the loan. As a result of entering the swap, the interest rate on a substantial portion of our long-term debt is effectively fixed at approximately 4.25%. However, interest rate trends are inherently difficult to predict and interest rates may significantly increase or decrease over a short period of time. Should interest rates trend below that of our fixed swap interest rate, we may pay higher interest expense than market and seek to terminate or modify the terms of the swap prior to its maturity which could result in termination or other fees. We are also still subject to a variable amount of interest on the principal balance in excess of the notional amount of the interest rate swap and could be adversely impacted by rising interest rates in the future. If LIBOR interest rates had increased by 10%, or 1000 basis points, during the three months ended March 31, 2019, the rate increase would have resulted in an immaterial increase to interest expense, due to a small unhedged portion of the loan balance during the period relative to the total loan balance.

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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 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.

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 and principal financial 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 and principal financial 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 and principal financial officer, to determine whether any change in our internal control over financial reporting occurred during the fiscal quarter ended March 31, 2019 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CrestaTech Litigation

As disclosed in our Annual Report, we were a defendant in patent litigation originally filed by CrestaTech Technology Corporation, or CrestaTech. On January 21, 2014, CrestaTech filed a complaint for patent infringement against us in the United States District Court of Delaware, or District Court Litigation, alleging that we infringed U.S. Patent Nos. 7,075,585, or the '585 Patent and 7,265,792, or the '792 Patent. In addition to asking for compensatory damages, CrestaTech alleged willful infringement and sought a permanent injunction. CrestaTech also named Sharp Corporation, Sharp Electronics Corp. and VIZIO, Inc. as defendants based upon their alleged use of our television tuners. Following the litigation history described in our prior filings on Form 10-K and Form 10-Q, the District Court dismissed the District Court Litigation in April 2018. While the successor plaintiff following a Chapter 7 bankruptcy proceeding of CrestaTech below has suggested that the dismissal may have been in error, it has taken no action to re-instate the case. In the related bankruptcy proceeding, the plaintiff stated that it "no longer has any valid patent claims that it is asserting in any of the proceedings purchased under the Sale Agreement," which includes the District Court Litigation against us. In re Cresta Technology Corporation, Case No. 16-50808 (N.D. Cal. Bank. 2016) at Dkt. No. 270. At this time, we cannot predict whether the District Court Litigation will be re-instated. In addition, outside the District Court Litigation, we and the successor to CrestaTech are continuing to dispute certain matters relating to the ‘585 Patent through the inter parties review (IPR) and potential appeal process. Any re-instatement of the District Court Litigation, material expenses associated with the IPR and potential appeal process, or other costs arising from the dispute between the parties could adversely affect our operating results.

Trango Systems, Inc. Litigation

On or about August 2, 2016, Trango Systems, Inc., or Trango, filed a complaint in the Superior Court of California, County of San Diego, Central Division, against defendants Broadcom Corporation, Inc., or Broadcom, and us, collectively, Defendants. Trango is a purchaser that alleges various fraud, breach of contract, and interference with economic relations claims in connection with the discontinuance of a chip line we acquired from Broadcom in 2016. Trango seeks unspecified general and special damages, pre-judgment interest, expenses and costs, attorneys’ fees, punitive damages, and unspecified injunctive and equitable relief. On June 23, 2017, the Court sustained our demurrer to each cause of action in the second amended complaint, filed on or about December 6, 2016. Trango filed its third amended complaint on or about July 13, 2017. On February 23, 2018, the Court sustained, in part, our demurrer, dismissing with prejudice the cause of action for breach of a written contract, and Trango voluntarily dismissed its cause of action for breach of an implied-in-fact contract. The remaining causes of action have been permitted to proceed. On March 15, 2018, Trango filed its fourth amended complaint. We filed our answer on April 17, 2018. Also, on April 17, 2018, Broadcom filed a cross-complaint against us, alleging causes of action for indemnity, contribution and apportionment, and declaratory relief. Broadcom voluntarily dismissed the cross-complaint on June 8, 2018. On December 10, 2018, MaxLinear filed a motion for summary judgment, or in the alternative summary adjudication concerning all of Trango’s causes of action asserted against us; on April 5, 2019, the Court granted that motion, in part, dismissing Trango’s fraud-based claims against us (specifically, claims for intentional fraud, promissory fraud/false promise, fraud by concealment, and negligent misrepresentation). The trial date has been continued and is now set for August 9, 2019. We intend to continue to vigorously defend against the lawsuit as it proceeds.

We cannot predict the outcome of the Trango Systems, Inc. litigation. Any adverse determination in the Trango Systems, Inc. litigation could have a material adverse effect on our business and operating results.

Other Matters

In addition, 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. Other than the CrestaTech and Trango litigation described above, we believe that there are no other currently pending litigation matters that, if determined adversely to our interests, would have a material effect on our business or that would not be covered by our existing liability insurance.

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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 t 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. In addition to the other information set forth in this report, you should also consider the risk factors discussed in our Annual Report on Form 10-K, which we filed with the SEC on February 5, 2019, or the Annual Report, together with all of the other information included in this Quarterly Report on Form 10-Q, the Annual Report, and in our other public filings, which could materially affect our business, financial condition or future results.

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 connected home, wired and wireless infrastructure, and broader industrial and communications analog and mixed-signal markets 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. We expect competition to increase and intensify as a result of industry consolidation and the resulting creation of larger semiconductor companies. Large semiconductor companies resulting from industry consolidation could enjoy substantial market power, which they could exert through, among other things, aggressive pricing that could adversely affect our customer relationships and revenues. In addition, we expect the internal resources of large, integrated original equipment manufacturers, or OEMs, may continue to 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 communications and industrial platforms, our competitors range from large, international merchant semiconductor companies offering a wide range of semiconductor products to smaller companies specializing in narrow markets, to internal or vertically integrated engineering groups within certain customers. Our primary merchant semiconductor competitors include Silicon Labs, NXP Semiconductors N.V., MediaTek, Inc., Broadcom Ltd, Rafael Microelectronics, Inc., Inphi Corporation, M/A-COM Technology Solutions Holdings, Inc., Semtech Corporation, Qorvo Inc., Texas Instruments, HiSilicon Technologies Co., Ltd., Analog Devices, Renesas Electronics Corporation, Maxim Integrated Products, Inc., Monolithic Power Systems, Microchip Technology, Inc., Ambarella, Inc., and Infineon Technologies AG. It is quite likely that competition in the markets in which we participate will increase in the future as existing competitors improve or expand their product offerings. In addition, it is quite likely that a number of other public and private companies are in the process of developing competing products for our current and target markets. 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 or platform partners

that develop their own integrated circuit products. If we cannot offer an attractive solution for applications where our competitors offer more fully integrated 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, satellite, or DTV applications, and thereby potentially provide customers with smaller and cheaper solutions. Some of our targeted customers for our optical interconnect solutions are module makers who are vertically integrated, where we compete with internally supplied components, and we compete with much larger analog and mixed-signal catalog competitors in the multi-market high-performance analog markets.

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Our ability to compete successfully depends on factors 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 conditions in the future. Moreover, the competitive landscape is changing as a result of intense 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, that have undergone or are undergoing consolidation and who themselves are dependent on a consolidating set of service provider 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 addition, a significant portion of our revenue is derived from sales of products to distributors, who then resell our products.

For the three months ended March 31, 2019, one customer accounted for 12% of our net revenue, and our ten largest customers collectively accounted for 60% of our net revenue. For the three months ended March 31, 2018, one customer accounted for approximately 27% of our net revenue, and our ten largest customers collectively accounted for approximately 63% of our net revenue. We expect that our operating results for the foreseeable future will continue to show a substantial but declining percentage of sales dependent on 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, digital STB video SoCs, DBS ODU receiver SOCs, and MoCA®, G.hn connectivity solutions and high-performance analog solutions. 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;
- some of our customers have sought or are seeking relationships with current or potential competitors which may affect their purchasing decisions;
- service provider and OEM consolidation across cable, satellite, and fiber markets could result in significant changes to our customers' technology development and deployment priorities and roadmaps, which could affect our ability to forecast demand accurately and could lead to increased volatility in our business; and
- technological changes in our markets could lead to substantial volatility in our revenues based on product transitions, and particularly in our broadband markets, we face risks based on changes in the way consumers are accessing and using broadband and cable services, which could affect operator demand for our products.

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 products 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.

A significant portion of our revenues are from sales of product to distributors, who then resell our product. Our agreements with certain of these distributors provide protection against price reduction on their inventories of our products. The loss of certain distributors could have a material adverse effect on our business and results of operations, and price reductions associated with their inventories of our products could have a substantial adverse effect on our operating results in the event of a dramatic decline in selling prices for these products.

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A significant portion of our revenue is attributable to demand for our products in markets for connected home solutions, and development delays and consolidation trends among cable and satellite Pay-TV and broadband operators could adversely affect our future revenues and operating results.
For the three months ended March 31, 2019 and 2018, revenue directly attributable to connected home applications accounted for approximately 51% and 59% of our net revenue, respectively. Delays in the development of, or unexpected developments in the connected home markets could have an adverse effect on order activity by original equipment manufacturers in these markets and, as a result, on our business, revenue, operating results and financial condition. In addition, consolidation trends among pay-TV and broadband operators may continue, which could have a material adverse effect on our future operating results and financial condition. Most recently, we experienced sharper than previously anticipated declines in our legacy video SoC revenues as a result of the acquisition of Time Warner Cable by Charter Communications.
If we fail to penetrate new applications and markets, our revenue, revenue growth rate, if any, and financial condition could be materially and adversely affected.
We sell most of our products to manufacturers of cable broadband voice and data modems and gateways, pay-TV set-top boxes and gateways into cable and satellite operator markets, satellite outdoor units or LNB's, optical modules for long-haul and metro telecommunications markets, and RF transceivers and modem solutions for wireless infrastructure markets. We have expanded our product offerings to include power management and interface technologies which are ubiquitous functions in new and existing markets such as wireless and wireline communications infrastructure, broadband access, industrial, enterprise network, and automotive applications. Our future revenue growth, if any, will depend in part on our ability to further penetrate into, and expand beyond, these markets with analog and mixed-signal solutions targeting the markets for high-speed optical interconnects for data center, metro, and long-haul optical modules, telecommunications wireless infrastructure, and cable DOCSIS 3.1 network infrastructure products. Each of these markets presents distinct and substantial risks. If any of these markets do 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.
Broadband data modems and gateways and pay-TV and satellite set-top boxes and video gateways continue to represent our largest North American and European revenue generator. The North American and European pay-TV market is dominated by only a few OEMs, including Technicolor, Arris Group (which was recently acquired by Commscope Holdings Company, Inc.), Inc., Hitron Technologies, Inc., Compal Broadband Networks, Humax Co., Ltd., and Samsung Electronics Co., Ltd. These OEMs are large multinational corporations with substantial negotiating power relative to us and are undergoing significant consolidation. 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 pay-TV television companies such as Comcast Corporation, Liberty Global plc, Spectrum, Sky (in which Comcast has a controlling stake), AT&T and EchoStar Corporation. 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.
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.
We may be unable to make the substantial and productive research and development investments that 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, which we believe have provided us with a significant competitive advantage. For the three months ended March 31, 2019 and 2018, our research and development expense was $27.4 million and $31.1 million, respectively. We have increased our research and development expenditures in the past 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 28nm and 16nm 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 that are the focus of our research and development expenditures will become commercially successful.

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We have experienced a recent decline in net revenues. A significant variance in our operating results or rates of growth, if any, could lead to substantial volatility in our stock price. To the extent we return to growth, we may not sustain our growth rate, and we may not be able to manage future growth effectively.

We have experienced a recent decline in net revenues due to anticipated declines from legacy product shipments used in satellite, terrestrial, and video SoC applications, as well as a slowdown in the cable market owing to the market transition from DOCSIS 3.0 to DOCSIS 3.1 and related customer inventory reductions. Our net revenue increased from approximately $387.8 million in 2016 to $420.3 million in 2017 and decreased to $385.0 million in 2018. You should not rely on our operating results for any prior quarterly or annual periods as an indication of our future operating performance. Please refer to the Risk Factor entitled "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" for a discussion of factors contributing to variances in our operating results or rates of growth. If we are unable to return to revenue growth and 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.

The complexity of our products could result in unforeseen delays or expenses caused by undetected defects or bugs, which could reduce the market acceptance of our new products, damage our reputation with current or prospective customers and adversely affect our operating costs.

Highly complex products like our broadband RF receivers and RF receiver SoCs, physical medium devices for optical modules, RF transceiver and modem solutions for wireless infrastructure markets, and high-performance analog solutions may contain defects and bugs when they are first introduced or as new versions are released. Where any of our products, including legacy acquired products, contain defects or bugs, or have reliability, quality or compatibility problems, we may not be able to successfully correct these problems. Consequently, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers and attract new customers, and our financial results. In addition, these defects or bugs could interrupt or delay sales to our customers. If any of these problems are not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs, and our operating costs could be adversely affected. These problems may also result in warranty or product liability claims against us by our customers or others that may require us to make significant expenditures to defend these claims or pay damage awards. In the event of a warranty claim, we may also incur costs if we compensate the affected customer. We maintain product liability insurance, but this insurance is limited in amount and subject to significant deductibles. There is no guarantee that our insurance will be available or adequate to protect against all claims. We also may incur costs and expenses relating to a recall of one of our customers' products containing one of our devices. The process of identifying a recalled product in devices that have been widely distributed may be lengthy and require significant resources, and we may incur significant replacement costs, contract damage claims from our customers and reputational harm. Costs or payments made in connection with warranty and product liability claims and product recalls could materially affect our financial condition and results of operations.

Average selling prices of our products could decrease rapidly, which would 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, and we expect that we will have to do so again in the future. In particular, we believe that industry consolidation has provided a number of larger semiconductor companies with substantial market power, which has had an adverse impact on selling prices in some of our markets. If we are unable to offset any reductions in our average selling prices by increasing our sales volumes or introducing new products with higher margins, our revenue and gross margins will suffer. To support 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. Our inability to do so would cause our revenue and gross margins to decline. In addition, under certain of our agreements with key distributors, we provide protection for reductions in selling prices of the distributors' inventory, which could have a significant adverse effect on our operating results if the selling prices for those products fell dramatically.

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.

In particular, we believe that we will need to develop new products in part to respond to changing dynamics and trends in our end user markets, including (among other trends) consolidation among cable and satellite operators, potential industry shifts away from the hardware devices and other technologies that incorporate our products, and changes in consumer television viewing habits and how consumers access and receive broadcast content and digital broadband services. We cannot predict how these trends will continue to develop or how or to what extent they may affect our future revenues and operating results. We believe that we will need to continue to make substantial investments in research and development in an attempt to ensure a product roadmap that anticipates these types of changes; however, we cannot provide any assurances that we will accurately predict the direction in which our markets will evolve or that we will be able to develop, market, or sell new products that respond to such changes successfully or in a timely manner, if at all.

We have settled in the past and are currently a party to intellectual property litigation and may face additional claims of intellectual property infringement. Current litigation and any future litigation could be time-consuming, costly to defend or settle and result in the loss of significant rights.

The semiconductor industry is characterized by companies that hold large numbers of patents and other intellectual property rights and that vigorously pursue, protect and enforce intellectual property rights. Third parties have in the past and may in the future assert against us and our customers and distributors their patent and other intellectual property rights to technologies that are important to our business. In particular, from time to time, we receive correspondence from competitors seeking to engage us in discussions concerning potential claims against us, and we receive correspondence from customers seeking indemnification for potential claims related to infringement claims asserted against down-stream users of our products. We investigate these requests as received and could be required to enter license agreements with respect to third party intellectual property rights or indemnify third parties, either of which could have an adverse effect on our future operating results.

As disclosed in our Annual Report, we were a defendant in patent litigation originally filed by CrestaTech Technology Corporation, or CrestaTech. On January 21, 2014, CrestaTech filed a complaint for patent infringement against us in the United States District Court of Delaware, or District Court Litigation, alleging that we infringed U.S. Patent Nos. 7,075,585, or the '585 Patent and 7,265,792, or the '792 Patent. In addition to asking for compensatory damages,

CrestaTech alleged willful infringement and sought a permanent injunction. CrestaTech also named Sharp Corporation, Sharp Electronics Corp. and VIZIO, Inc. as defendants based upon their alleged use of our television tuners. Following the litigation history described in our prior filings on Form 10-K and Form 10-Q, the District Court dismissed the District Court Litigation in April 2018. While the successor plaintiff following a Chapter 7 bankruptcy proceeding of CrestaTech below has suggested that the dismissal may have been in error, it has taken no action to re-instate the case. In the related bankruptcy proceeding, the plaintiff stated that it

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"no longer has any valid patent claims that it is asserting in any of the proceedings purchased under the Sale Agreement," which includes the District Court Litigation against us. In re Cresta Technology Corporation, Case No. 16-50808 (N.D. Cal. Bank. 2016) at Dkt. No. 270. At this time, we cannot predict whether the District Court Litigation will be re-instated. In addition, outside the District Court Litigation, we and the successor to CrestaTech are continuing to dispute certain matters relating to the '585 Patent through the inter parties review (IPR) and potential appeal process. Any re-instatement of the District Court Litigation, material expenses associated with the IPR and potential appeal process, or other costs arising from the dispute between the parties could adversely affect our operating results.

Claims that our products, processes or technology infringe third-party intellectual property rights, regardless of their merit or resolution and including the CrestaTech claims, are costly to defend or settle and could divert the efforts and attention of our management and technical personnel. In addition, many of our customer and distributor agreements require us to indemnify and defend our customers or distributors from third-party infringement claims and pay damages in the case of adverse rulings. Claims of this sort also could harm our relationships with our customers or distributors and might deter future customers from doing business with us. In order to maintain our relationships with existing customers and secure business from new customers, we have been required from time to time to provide additional assurances beyond our standard terms. If any future proceedings result in an adverse outcome, we could be required to:

- cease the manufacture, use or sale of the infringing products, processes or technology;
- pay substantial damages for infringement;
- expend significant resources to develop non-infringing products, processes or technology;
- license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all;
- cross-license our technology to a competitor to resolve an infringement claim, which could weaken our ability to compete with that competitor; or
- pay substantial damages to our customers or end users to discontinue their use of or to replace infringing technology sold to them with non-infringing technology.

Any of the foregoing results could have a material adverse effect on our business, financial condition, and results of operations.

We utilize a significant amount of intellectual property in our business. If we are unable to protect our intellectual property, our business could be adversely affected.

Our success depends in part upon our ability to protect our intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, copyrights, trademarks and trade secrets in the United States and in selected foreign countries where we believe filing for such protection is appropriate. Effective patent, copyright, trademark and trade secret protection may be unavailable, limited or not applied for in some countries. Some of our products and technologies are not covered by any patent or patent application. We cannot guarantee that:

- any of our present or future patents or patent claims will not lapse or be invalidated, circumvented, challenged or abandoned;
- our intellectual property rights will provide competitive advantages to us;
- our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties;
- any of our pending or future patent applications will be issued or have the coverage originally sought;
- our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak;
- any of the trademarks, copyrights, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned; or

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- we will not lose the ability to assert our intellectual property rights against or to license our technology to others and collect royalties or other payments.

In addition, our competitors or others may design around our protected patents or technologies. Effective intellectual property protection may be unavailable or more limited in one or more relevant jurisdictions relative to those protections available in the United States, or may not be applied for in one or more relevant jurisdictions. If we pursue litigation to assert our intellectual property rights, an adverse decision in any of these legal actions could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively impact our business, financial condition and results of operations.

Monitoring unauthorized use of our intellectual property is difficult and costly. Unauthorized use of our intellectual property may have occurred or may occur in the future. Although we have taken steps to minimize the risk of this occurring, any such failure to identify unauthorized use and otherwise adequately protect our intellectual property would adversely affect our business. Moreover, if we are required to commence litigation, whether as a plaintiff or defendant as has occurred with CrestaTech, not only will this be time-consuming, but we will also be forced to incur significant costs and divert our attention and efforts of our employees, which could, in turn, result in lower revenue and higher expenses.

We also rely on customary contractual protections with our customers, suppliers, distributors, employees and consultants, and we implement security measures to protect our trade secrets. We cannot assure you that these contractual protections and security measures will not be breached, that we will have adequate remedies for any such breach or that our suppliers, employees or consultants will not assert rights to intellectual property arising out of such contracts.

In addition, we have a number of third-party patent and intellectual property license agreements. Some of these license agreements require us to make one-time payments or ongoing royalty payments. Also, a few of our license agreements contain most-favored nation clauses or other price restriction clauses which may affect the amount we may charge for our products, processes or technology. We cannot guarantee that the third-party patents and technology we license will not be licensed to our competitors or others in the semiconductor industry. In the future, we may need to obtain additional licenses, renew existing license agreements or otherwise replace existing technology. We are unable to predict whether these license agreements can be obtained or renewed or the technology can be replaced on acceptable terms, or at all.

When we settled a trademark dispute with Linear Technology Corporation, we agreed not to register the “MAXLINEAR” mark or any other marks containing the term “LINEAR”. We may continue to use “MAXLINEAR” as a corporate identifier, including to advertise our products and services, but may not use that mark on our products. The agreement does not affect our ability to use our registered trademark “MxL”, which we use on our products. Due to our agreement not to register the “MAXLINEAR” mark, our ability to effectively prevent third parties from using the “MAXLINEAR” mark in connection with similar products or technology may be affected. If we are unable to protect our trademarks, we may experience difficulties in achieving and maintaining brand recognition and customer loyalty.

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 significant portion of our products to customers through our distributors, who maintain their own inventories of our products. Sales through distributors accounted for approximately 41% and 39% of our net revenue in the three months ended March 31, 2019 and 2018, respectively. Upon shipment of product to these distributors, title to the inventory transfers to the distributor and the distributor is invoiced, generally with 30 to 60 day terms. Distributor sales are also recognized upon shipment to the distributor and estimates of future pricing credits and/or stock rotation rights reduce revenue recognized to the net amount before the actual amounts are known. If our estimates of such credits and rights are materially understated it could cause subsequent adjustments that negatively impact our revenues and gross profits in a future period.

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 through 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.

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 weekly 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 accurately or at all.

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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 shipments of products under 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.

We may be subject to information technology failures, including data protection breaches and cyber-attacks, that could disrupt our operations, damage our reputation and adversely affect our business, operations, and financial results.

We rely on our information technology systems for the effective operation of our business and for the secure maintenance and storage of confidential data relating to our business and third-party businesses. Although we have implemented security controls to protect our information technology systems, experienced programmers or hackers may be able to penetrate our security controls, and develop and deploy viruses, worms and other malicious software programs that compromise our confidential information or that of third parties and cause a disruption or failure of our information technology systems. In addition, we have in the past and may in the future be subject to "phishing" attacks in which third parties send emails purporting to be from reputable companies in order to obtain personal information and infiltrate our systems to initiate wire transfers or otherwise obtain proprietary or confidential information. A number of large, public companies have recently experienced losses based on phishing attacks and other cyber-attacks. Any compromise of our information technology systems could result in the unauthorized publication of our confidential business or proprietary information, result in the unauthorized release of customer, supplier or employee data, result in a violation of privacy or other laws, expose us to a risk of litigation, cause us to incur direct losses if attackers access our bank or investment accounts, or damage our reputation. The cost and operational consequences of implementing further data protection measures either as a response to specific breaches or as a result of evolving risks, could be significant. In addition, our inability to use or access our information systems at critical points in time could adversely affect the timely and efficient operation of our business. Any delayed sales, significant costs or lost customers resulting from these technology failures could adversely affect our business, operations and financial results.

Third parties with which we conduct business, such as foundries, assembly and test contractors, and distributors, have access to certain portions of our sensitive data. In the event that these third parties do not properly safeguard our data that they hold, security breaches could result and negatively impact our business, operations and financial results.

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, including sole sourcing for many components or products. Currently, the majority of our products are manufactured by Global Foundries, Semiconductor Manufacturing International Corporation, or SMIC, Taiwan Semiconductor Manufacturing Corp, or TSMC, and United Microelectronics Corporation, or UMC, at foundries located in Taiwan, Singapore, and China. We also use third-party contractors for all of our assembly and test operations.

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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 the majority of our fabrication and assembly and test contractors are all located in the Pacific Rim region, principally in China, Taiwan, and Singapore. 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 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 effect on our business, revenue and operating results.

We currently do not have long-term supply contracts with any of our third-party vendors, including but, not limited to Global Foundries, SMIC, TSMC, and UMC. We make substantially all of our purchases on a purchase order basis, and our contract manufacturers are not 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. 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.

We may have difficulty accurately predicting our future revenue and appropriately budgeting our expenses particularly as we seek to enter new markets where we may not have prior experience.

Our operating history had previously focused on developing integrated circuits for specific terrestrial, cable and satellite television, and broadband voice and data applications, and as part of our strategy, we seek to expand our

addressable market into new product categories. For example, we expanded into the markets for satellite set-top and gateway boxes and outdoor

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units and physical medium devices for the optical interconnect markets. We have also expanded into the wired whole-home broadband connectivity market and entered the markets for wireless telecommunications infrastructure and power management and interface technologies which are ubiquitous functions in wireless and wireline communications infrastructure, broadband access, industrial, enterprise network, and automotive applications. Our limited operating experience in these new markets or potential markets we may enter, combined with the rapidly evolving nature of our markets in general, substantial uncertainty concerning how these markets may develop and other factors beyond our control, reduces our ability to accurately forecast quarterly or annual revenue. 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.

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 attract and retain all of these personnel as we continue to pursue our business strategy. Historically, we have encountered difficulties in hiring and retaining qualified engineers because there is a limited pool of engineers with the expertise required in our field. Competition for these personnel is intense in the semiconductor industry. As the source of our technological and product innovations, our design and technical personnel represent a significant asset. In addition, two of our current executives, our chief financial officer and chief corporate strategy officer and our vice president of sales, joined us in July 2018. As new employees gain experience in their roles, we could experience inefficiencies or a lack of business continuity due to loss of historical knowledge and a lack of familiarity of new employees with business processes, operating requirements, policies and procedures, and we may experience additional costs as new employees gain necessary experience. It is important to our success that these key employees quickly adapt to and excel in their new roles. If they are unable to do so, our business and financial results could be materially adversely affected. The loss of the services of one or more of our key employees, especially our key design and technical personnel, or our inability to retain, attract and motivate qualified design and technical personnel, could have a material adverse effect on our business, financial condition and 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. 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. We are fortunate that many members of our executive management team have long tenures with us, but from time to time we also have been required to recruit new executive officers. For example, two of our current executives, our chief financial officer and chief corporate strategy officer and our vice president of sales, joined us in July 2018. With respect to executive officer recruitment and retention, we need to ensure that our executive compensation programs provide sufficient recruitment and retention incentives as well as incentives to achieve our long-term strategic business and financial objectives. We expect competition for individuals with our required skill sets, particularly technical and engineering skills, to remain intense even in weak global macroeconomic environments. 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.

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 our solutions, or 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 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 result in a decrease in our revenue and cause our business to suffer.

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

We focused on securing design wins to develop RF receivers and RF receiver SoCs, MoCA and G.hn SoCs, DBS-ODU SoCs, physical medium devices for optical modules, interface and power management devices, and SoC solutions targeting infrastructure opportunities within the telecommunications, wireless, industrial and multimarket and broadband operator markets 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 18 to 24 months for the satellite markets, and 36 months or longer for industrial, wired and wireless infrastructure markets. The delays inherent in these lengthy sales cycles increase the risk that a customer will decide to 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 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;
- impairment of long-lived assets, including masks and production equipment; and
- the effects of competitive pricing pressures, including decreases in average selling prices of our products.

These 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.

We are subject to the cyclical nature of the semiconductor industry.

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. Any future downturns may result in diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Furthermore, any upturn in the semiconductor industry could result in increased competition for access to third-party foundry and assembly capacity. We are dependent on the availability of this capacity to manufacture and assemble all of our products. None of our third-party foundry or assembly contractors has provided assurances that adequate capacity will be available to us in the future. A significant downturn or upturn could have a material adverse effect on our business and operating results.

The use of open source software in our products, processes and technology may expose us to additional risks and harm our intellectual property.

Our products, processes and technology sometimes utilize and incorporate software that is subject to an open source license. Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user’s software to disclose publicly part or all of the source code to the user’s software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on unfavorable terms or at no cost. This can subject previously proprietary software to open source license terms.

While we monitor the use of all open source software in our products, processes and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product, processes or technology when we do not wish to do so, such use could inadvertently occur. Additionally, if a third party software provider has incorporated certain types of open source software into software we license from such third party for our products, processes or technology, we could, under certain circumstances, be required to disclose the source code to our products, processes or technology. This could harm our intellectual property position and have a material adverse effect on our business, results of operations and financial condition.

We rely on third parties to provide services and technology necessary for the operation of our business. Any failure of one or more of our partners, vendors, suppliers or licensors to provide these services or technology could have a material adverse effect on our business.

We rely on third-party vendors to provide critical services, including, among other things, services related to accounting, billing, human resources, information technology, network development, network monitoring, in-licensing and intellectual property that we cannot or do not create or provide ourselves. We depend on these vendors to ensure that our corporate infrastructure will consistently meet our business requirements. The ability of these third-party vendors to successfully provide reliable and high quality services is subject to technical and operational uncertainties that are beyond our control. While we may be entitled to damages if our vendors fail to perform under their agreements with us, our agreements with these vendors limit the amount of damages we may receive. In addition, we do not know whether we will be able to collect on any award of damages or that these damages would be sufficient to cover the actual costs we would incur as a result of any vendor’s failure to perform under its agreement with us. Any failure of our corporate infrastructure could have a material adverse effect on our

business, financial condition and results of operations. Upon expiration or termination of any of our agreements with third-party vendors, we may not be able to replace the services provided to us in a timely manner or on terms and conditions, including

service levels and cost, that are favorable to us and a transition from one vendor to another vendor could subject us to operational delays and inefficiencies until the transition is complete.

Additionally, we incorporate third-party technology into and with some of our products, and we may do so in future products. The operation of our products could be impaired if errors occur in the third-party technology we use. It may be more difficult for us to correct any errors in a timely manner if at all because the development and maintenance of the technology is not within our control. There can be no assurance that these third parties will continue to make their technology, or improvements to the technology, available to us, or that they will continue to support and maintain their technology. Further, due to the limited number of vendors of some types of technology, it may be difficult to obtain new licenses or replace existing technology. Any impairment of the technology or our relationship with these third parties could have a material adverse effect on our business.

Unanticipated changes in our tax rates or unanticipated tax obligations could affect our future results.

We are subject to income taxes in the United States, Singapore and various other foreign jurisdictions. The amount of income taxes we pay is subject to our interpretation and application of tax laws in jurisdictions in which we file. Changes in current or future laws or regulations, the imposition of new or changed tax laws or regulations or new interpretations by taxing authorities or courts could affect our results of operations and lead to volatility with respect tax expenses and liabilities from period to period. The application of tax laws and related regulations is subject to legal and factual interpretation, judgment and uncertainty. We cannot determine whether any legislative proposals may be enacted into law or what, if any, changes may be made to such proposals prior to their being enacted into law. If U.S. or international tax laws change in a manner that increases our tax obligation, it could result in a material adverse impact on our results of operations and our financial position.

We are subject to examinations and tax audits. There can be no assurance that the outcome from these audits will not have an adverse effect on our operating results or financial position.

Excess tax benefits associated with employee stock-based compensation are included in income tax expense. However, since the amount of such excess tax benefits and deficiencies depend on the fair market value of our common stock, our income tax provision is subject to volatility in our stock price and in the future, could unfavorably affect our future effective tax rate.

Our future effective tax rate could be unfavorably affected by unanticipated changes in the valuation of our deferred tax assets and liabilities, and the ultimate use and depletion of these various tax credits and net operating loss carryforwards. Changes in our effective tax rate could have a material adverse impact on our results of operations. We record a valuation allowance to reduce our net deferred tax assets to the amount that we believe is more likely than not to be realized. In making such determination, we consider all available positive and negative evidence quarterly, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. To the extent we believe it is more likely than not that some portion of our deferred tax assets will not be realized, we record a valuation allowance against the deferred tax asset. Realization of our deferred tax assets is dependent primarily upon future taxable income in the applicable jurisdiction. Based upon our review of all positive and negative evidence, we concluded that a full valuation allowance should continue to be recorded against our state and certain federal and foreign net deferred tax assets at March 31, 2019. On a periodic basis we evaluate our deferred tax assets for realizability. The impact of releasing some or all of such valuation allowance in a future period could be material in the period in which such release occurs.

Our corporate income tax liability could materially increase if tax incentives we have negotiated in Singapore cease to be effective or applicable or if we are challenged on our use of such incentives.

We operate under certain favorable tax incentives in Singapore which are effective through March 2022 and may be extended through March 2027, and generally are dependent on our meeting certain headcount and investment thresholds. Such incentives allow certain qualifying income earned in Singapore to be taxed at reduced rates and are conditional upon our meeting certain employment and investment thresholds over time. If we fail to satisfy the

conditions for receipt of these tax incentives, or to the extent U.S. or other tax authorities challenge our operation under these favorable tax incentive programs or our intercompany transfer pricing agreements, our taxable income could be taxed at higher federal or foreign statutory rates and our income tax liability and expense could materially increase beyond our projections. Each of our Singapore tax incentives is separate and distinct from the others, and may be granted, withheld, extended, modified, truncated, complied with or terminated independently without any effect on the other incentives. Absent these tax incentives, our corporate income tax rate in Singapore would generally be the 17% statutory tax rate. We are also subject to operating and other compliance requirements to maintain our favorable tax incentives. If we fail to comply with such requirements, we could lose the tax benefits and could

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possibly be required to refund previously realized material tax benefits. Additionally, in the future, we may fail to qualify for renewal of our favorable tax incentives or such incentives may not be available to us, which could also cause our future taxable income to increase and be taxed at higher statutory rates. Loss of one more of our tax incentives could cause us to modify our tax strategies and our operational structure, which could cause disruption in our business and have a material adverse impact on our results of operations. Further, there can be no guarantee that such modification in our tax strategy will yield tax incentives as favorable as those we have negotiated with Singapore. Our interpretations and conclusions regarding the tax incentives are not binding on any taxing authority, and if our assumptions about tax and other laws are incorrect or if these tax incentives are substantially modified or rescinded we could suffer material adverse tax and other financial consequences, which would increase our expenses, reduce our profitability and adversely affect our cash flows.

Global 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.

Our products are incorporated in numerous consumer devices, and demand for such products will ultimately be driven by consumer demand for products such as televisions, personal computers, automobiles, cable modems, smartphones, and set-top boxes. Many of these purchases are discretionary. Global economic volatility and economic volatility in the specific markets in which the devices that incorporate our products are ultimately sold can cause extreme difficulties for our customers and third-party vendors in accurately forecasting and planning future business activities. This unpredictability could cause our customers to reduce spending on our products, which would delay and lengthen sales cycles. Furthermore, during challenging economic times our customers may face challenges in gaining timely access to sufficient credit, which could impact their ability to make timely payments to us. These events, together with economic volatility that may face the broader economy and, in particular, the semiconductor and communications industries, may adversely affect, our business, particularly to the extent that consumers decrease their discretionary spending for devices deploying our products.

Our business, financial condition and results of operations could be adversely affected by the political and economic conditions of the countries in which we conduct business and other factors related to our international operations.

We sell our products throughout the world. Products shipped to Asia accounted for 85% of our net revenue in the three months ended March 31, 2019. In addition, approximately 51% of our employees are located outside of the United States as of March 31, 2019. The majority of our products are manufactured, assembled and tested in Asia, and all of our major distributors are located in Asia. Multiple factors relating to our international operations and to particular countries in which we operate could have a material adverse effect on our business, financial condition and results of operations. These factors include:

- changes in political, regulatory, legal or economic conditions;
- restrictive governmental actions, such as restrictions on the transfer or repatriation of funds and foreign investments and trade protection measures, including export duties and quotas and customs duties and tariffs;
- disruptions of capital and trading markets;
- changes in import or export licensing requirements;
- transportation delays;
- civil disturbances or political instability;
- geopolitical turmoil, including terrorism, war or political or military coups;
- public health emergencies;
- differing employment practices and labor standards;
- limitations on our ability under local laws to protect our intellectual property;
- local business and cultural factors that differ from our customary standards and practices;
- nationalization and expropriation;
- changes in tax laws;
- currency fluctuations relating to our international operating activities; and

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- difficulty in obtaining distribution and support.

In addition to a significant portion of our wafer supply coming from Taiwan, Singapore, and China, substantially all of our products undergo packaging and final testing in Taiwan, Singapore, China, South Korea, and Thailand. Any conflict or uncertainty in these countries, including due to natural disaster or public health or safety concerns, could have a material adverse effect on our business, financial condition and results of operations. In addition, if the government of any country in which our products are manufactured or sold sets technical standards for products manufactured in or imported into their country that are not widely shared, it may lead some of our customers to suspend imports of their products into that country, require manufacturers in that country to manufacture products with different technical standards and disrupt cross-border manufacturing relationships which, in each case, could have a material adverse effect on our business, financial condition and results of operations. We also are subject to risks associated with international political conflicts involving the U.S. government. For example, we ceased business operations with entities affiliated with ZTE Corp. when the Bureau of Industry and Security at the U.S. Department of Commerce imposed an export licensing requirement, which was subsequently suspended through March 28, 2017. Such suspension was lifted as of March 29, 2017, however on April 17, 2018 the U.S. Department of Commerce imposed a seven-year export ban on ZTE, which was subsequently lifted as of July 13, 2018. Although we do not have significant sales to ZTE, we cannot provide assurances that similar disruptions in the future of distribution arrangements or the imposition of governmental prohibitions on selling our products to particular customers will not adversely affect our revenues and operating results. Loss of a key distributor or customer under similar circumstances could have an adverse effect on our business, revenues and operating results.

Changes in trade policies among the United States and other countries, in particular the imposition of new or higher tariffs, could place pressure on our average selling prices as our customers seek to offset the impact of increased tariffs on their own products. Increased tariffs or the imposition of other barriers to international trade could have a material adverse effect on our revenues and operating results.

Recently, the United States has imposed or proposed new or higher tariffs on certain products exported by a number of U.S. trading partners, including China, Europe, Canada, and Mexico. In response, many of those trading partners, including China, have imposed or proposed new or higher tariffs on American products. Continuing changes in government trade policies create a heightened risk of further increased tariffs that impose barriers to international trade. Our business and operating results are substantially dependent on international trade, particularly involving the sale of our products into China. Approximately 67% of our total revenues in the three months ended March 31, 2019 consisted of sales of our integrated circuits to both Original Equipment Manufacturers (OEMs) and Ordinary Device Manufacturers (ODMs) in China. Many of these manufacturers sell products incorporating our semiconductors into other international markets, including the United States.

Tariffs on our customers’ products may adversely affect our gross profit margins in the future due to the potential for increased pressure on our selling prices by customers seeking to offset the impact of tariffs on their own products. In addition, tariffs could make our OEM and ODM customers’ products less attractive relative to products offered by their competitors, which may not be subject to similar tariffs. Some OEM and ODMs in our industry have already begun implementing short-term price adjustments to offset such tariffs and transitioning their production and supply chain to locations outside of China. We believe that increases in tariffs on imported goods or the failure to resolve current international trade disputes could have a material adverse effect on our business and operating results.

Our business is subject to various governmental regulations, and compliance with these regulations may cause us to incur significant expenses. If we fail to maintain compliance with applicable regulations, we may be forced to recall products and cease their manufacture and distribution, and we could be subject to civil or criminal penalties.

Our business is subject to various international and U.S. laws and other legal requirements, including packaging, product content, labor, import/export control regulations, the Foreign Corrupt Practices Act, and other anticorruption laws. These regulations are complex, change frequently and have generally become more stringent over time. We may be required to incur significant costs to comply with these regulations or to remedy violations. Any failure by us to comply with applicable government regulations could result in cessation of our operations or portions of our operations, product recalls or impositions of fines and restrictions on our ability to conduct our operations. In addition, because many of our products are regulated or sold into regulated industries, we must comply with additional

regulations in marketing our products.

Our products and operations are also subject to the rules of industrial standards bodies, like the International Standards Organization, as well as regulation by other agencies, such as the U.S. Federal Communications Commission. If we fail to adequately address any of these rules or regulations, our business could be harmed.

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For example, as indicated elsewhere in this report, we do a substantial portion of our business in Asia and particularly in China. In recent years, there has been a substantial focus by regulators in the United States and Europe on the business practices of major Chinese technology companies such as Huawei and ZTE. Huawei and ZTE are each our current customers. While we intend to conduct our businesses in compliance with all applicable laws, including laws relating to export controls and anti-corruption, it is possible that the nature of our business and customers could result in a review of our relationships and practices by regulatory authorities. We could incur increased administrative and legal costs in order to respond to any inquiries, and any failure to comply with applicable laws could adversely affect our business and operating results. We have implemented policies and procedures, including adoption of an anti-corruption policy and procedures to ensure compliance with applicable export control laws, but there can be no assurance that these policies and procedures will prove effective.

We must conform the manufacture and distribution of our semiconductors to various laws and adapt to regulatory requirements in all countries as these requirements change. If we fail to comply with these requirements in the manufacture or distribution of our products, we could be required to pay civil penalties, face criminal prosecution and, in some cases, be prohibited from distributing our products in commerce until the products or component substances are brought into compliance.

If we suffer losses to our facilities or distribution system due to catastrophe, our operations could be seriously harmed.

Our facilities and distribution system, and those of our third-party contractors, are subject to risk of catastrophic loss due to fire, flood or other natural or man-made disasters. A number of our facilities and those of our contract manufacturers are located in areas with above average seismic activity. The risk of an earthquake in the Pacific Rim region or Southern California is significant due to the proximity of major earthquake fault lines. Any catastrophic loss to any of these facilities would likely disrupt our operations, delay production, shipments and revenue and result in significant expenses to repair or replace the facility. The majority of the factories we use for foundry, assembly and test, and warehousing services, are located in Asia, principally in China, Taiwan, and Singapore. Our corporate headquarters is located in Southern California. Our operations and financial condition could be seriously harmed in the event of a major earthquake, fire, or other natural or man-made disaster.

Investor confidence may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002, and as a result, our stock price could decline.

We are subject to rules adopted by the Securities Exchange Commission, or SEC, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, which require us to include in our Annual Report on Form 10-K our management’s report on, and assessment of the effectiveness of, our internal controls over financial reporting.

If we fail to maintain the adequacy of our internal controls, there is a risk that we will not comply with all of the requirements imposed by Section 404. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements and could result in investigations or sanctions by the SEC, the New York Stock Exchange, or NYSE, or other regulatory authorities or in stockholder litigation. Any of these factors ultimately could harm our business and could negatively impact the market price of our securities. Ineffective control over financial reporting could also cause investors to lose confidence in our reported financial information, which could adversely affect the trading price of our common stock.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Our products must conform to industry standards in order to be accepted by end users in our markets.

Generally, our products comprise only a part or parts of a communications device. All components of these devices must uniformly comply with industry standards in order to operate efficiently together. We depend on companies that provide other components of the devices to support prevailing industry standards. Many of these companies are significantly larger and more influential in driving industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our customers or end users. If larger companies do

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not support the same industry standards that we do, or if competing standards emerge, market acceptance of our products could be adversely affected, which would harm our business.
Products for communications applications are based on industry standards that are continually evolving. Our ability to compete in the future will depend on our ability to identify and ensure compliance with these evolving industry standards. The emergence of new industry standards could render our products incompatible with products developed by other suppliers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards for a significant period of time, we could miss opportunities to achieve crucial design wins. We may not be successful in developing or using new technologies or in developing new products or product enhancements that achieve market acceptance. Our pursuit of necessary technological advances may require substantial time and expense.
Risks Relating to Our Common Stock
Our management team may use our available cash and cash equivalents in ways with which you may not agree or in ways which may not yield a return.
We use our cash and cash equivalents for general corporate purposes, including working capital and for repayment of outstanding long-term debt. We may also use a portion of these assets to acquire complementary businesses, products, services or technologies. Our management has considerable discretion in the application of our cash and cash equivalents, and resources, and you will not have the opportunity to assess whether these liquid assets are being used in a manner that you deem best to maximize your return. We may use our available cash and cash equivalents for corporate purposes that do not increase our operating results or market value. In addition, in the future our cash and cash equivalents, and resources may be placed in investments that do not produce significant income or that may lose value.
Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.
Provisions in our certificate of incorporation and bylaws, as amended and restated, may have the effect of delaying or preventing a change of control or changes in our management. These provisions provide for the following:
- authorize our Board of Directors to issue, without further action by the stockholders, up to 25,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our Board of Directors, our Chairman of the Board of Directors, or our President;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our Board of Directors;
- establish that our Board of Directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered terms;
- provide that our directors may be removed only for cause;
- provide that vacancies on our Board of Directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors; and
- require supermajority votes of the holders of our common stock to amend specified provisions of our charter documents.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the

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provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder.

Our share price may be volatile as a result of various factors.

The trading price of our common stock could become highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this "Risk Factors" section of the Quarterly Report on Form 10-Q and others such as:

- actual or anticipated fluctuations in our financial condition and operating results;
- overall conditions in the semiconductor market;
- addition or loss of significant customers;
- changes in laws or regulations applicable to our products;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements of technological innovations by us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, or capital commitments;
- additions or departures of key personnel;
- competition from existing products or new products that may emerge;
- issuance of new or updated research or reports by securities analysts;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- disputes or other developments related to proprietary rights, including patents, litigation matters, and our ability to obtain intellectual property protection for our technologies;
- acquisitions, if applicable, may not be accretive and may cause dilution to our earnings per shares;
- announcement or expectation of additional financing efforts;
- sales of our common stock by us or our stockholders; and
- general economic and market conditions.

Furthermore, the stock markets recently have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We have been and may continue to be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

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Future sales of our common stock in the public market could cause our share price to decline.

Sales of a substantial number of shares of our common stock in the public market or in private transactions, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. As of March 31, 2019, we had approximately 70.5 million shares of common stock outstanding.

All shares of common stock are freely tradable without restrictions or further registration under the Securities Act of 1933, as amended, or the Securities Act, unless held by our “affiliates,” as that term is defined under Rule 144 under the Securities Act, or Rule 144.

Our Executive Incentive Bonus Plan permits the settlement of awards under the plan in the form of shares of our common stock. We have issued shares of our common stock to settle such bonus awards for our employees, including executives, for the 2014 to 2018 performance periods, and we intend to continue this practice in the foreseeable future. We issued 0.3 million shares of our common stock for the 2018 performance period in February 2019. If we issue additional shares of our common stock to settle bonus awards in the future, such shares may be freely sold in the public market immediately following the issuance of such shares, subject to the applicable conditions of Rule 144 and our insider trading policy, and the issuance of such shares may have an adverse effect on our share price once they are issued.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our Board of Directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Risks Relating to Our Acquisitions

In addition to our completed acquisitions, we may, from time to time, make additional business acquisitions or investments, which involve significant risks.

We have completed acquisitions in recent years and may, from time to time, make acquisitions, enter into alliances or make investments in other businesses to complement our existing product offerings, augment our market coverage or enhance our technological capabilities. However, any such transactions could result in:

- issuances of equity securities dilutive to our existing stockholders;
- substantial cash payments;
- the incurrence of substantial debt and assumption of unknown liabilities;
- large one-time write-offs;
- amortization expenses related to intangible assets;
- a limitation on our ability to use our net operating loss carryforwards;
- the diversion of management's time and attention from operating our business to acquisition integration challenges;
- stockholder or other litigation relating to the transaction;
- adverse tax consequences; and
- the potential loss of key employees, customers and suppliers of the acquired businesses.

Additionally, in periods subsequent to an acquisition, we must evaluate goodwill and acquisition-related intangible assets for impairment. If such assets are found to be impaired, they will be written down to estimated fair value, with a charge against earnings.

Integrating acquired organizations and their products and services, including the integration of completed acquisitions, may be expensive, time-consuming and a strain on our resources and our relationships with employees, customers, distributors and suppliers, and ultimately may not be successful. The benefits or synergies we may expect from the acquisition of complementary or supplementary businesses may not be realized to the extent or in the time frame we initially anticipate. Some of the risks that may affect our ability to successfully integrate acquired businesses include those associated with:

- failure to successfully further develop the acquired products or technology;
- conforming the acquired company's standards, policies, processes, procedures and controls with our operations;
- coordinating new product and process development, especially with respect to highly complex technologies;
- loss of key employees or customers of the acquired company;
- hiring additional management and other critical personnel;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;
- increasing the scope, geographic diversity and complexity of our operations;
- consolidation of facilities, integration of the acquired company's accounting, human resource and other administrative functions and coordination of product, engineering and sales and marketing functions;
- the geographic distance between the companies;
- liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities; and
- litigation or other claims in connection with the acquired company, including claims for terminated employees, customers, former stockholders or other third parties.

On or about August 2, 2016, Trango Systems, Inc., or Trango, filed a complaint in the Superior Court of California, County of San Diego, Central Division, against defendants Broadcom Corporation, Inc., or Broadcom, and us, collectively, Defendants. Trango is a purchaser that alleges various fraud, breach of contract, and interference with economic relations claims in connection with the discontinuance of a chip line we acquired from Broadcom in 2016. Trango seeks unspecified general and special damages, pre-judgment interest, expenses and costs, attorneys' fees, punitive damages, and unspecified injunctive and equitable relief. On June 23, 2017, the Court sustained our demurrer to each cause of action in the second amended complaint, filed on or about December 6, 2016. Trango filed its third amended complaint on or about July 13, 2017. On February 23, 2018, the Court sustained, in part, our demurrer, dismissing with prejudice the cause of action for breach of a written contract, and Trango voluntarily dismissed its cause of action for breach of an implied-in-fact contract. The remaining causes of action have been permitted to proceed. On March 15, 2018, Trango filed its fourth amended complaint. We filed our answer on April 17, 2018. Also, on April 17, 2018, Broadcom filed a cross-complaint against us, alleging causes of action for indemnity, contribution and apportionment, and declaratory relief. Broadcom voluntarily dismissed the cross-complaint on June 8, 2018. On December 10, 2018, MaxLinear filed a motion for summary judgment, or in the alternative summary adjudication concerning all of Trango's causes of action asserted against us; on April 5, 2019, the Court granted that motion, in part, dismissing Trango's fraud-based claims against us (specifically, claims for intentional fraud, promissory fraud/false promise, fraud by concealment, and negligent misrepresentation). The trial date has been continued and is now set for August 9, 2019. We intend to continue to vigorously defend against the lawsuit as it proceeds.

We cannot predict the outcome of the Trango Systems, Inc. litigation. Any adverse determination in the Trango Systems, Inc. litigation could have a material adverse effect on our business and operating results.
Failure to integrate our business and operations successfully with those of acquired businesses in the expected time-frame or otherwise may adversely affect our operating results and financial condition.
Our history of acquiring businesses is recent, and prior to our acquisition of Exar Corporation, or Exar, we had never pursued an acquisition of that size and complexity. We may complete larger-scale acquisitions in the future. The success of our recent and future acquisitions depends, in substantial part, on our ability to integrate acquired

businesses and operations efficiently and successfully with those of MaxLinear and to realize fully the anticipated benefits and potential synergies from

combining our companies, including, among others, cost savings from eliminating duplicative functions; potential operational efficiencies in our respective supply chains and in research and development investments; and potential revenue growth resulting from the addition of acquired product portfolios. If we are unable to achieve these objectives, the anticipated benefits and potential synergies from the acquisitions may not be realized fully or may take longer to realize than expected. Any failure to timely realize these anticipated benefits would have a material adverse effect on our business, operating results, and financial condition, and could also have a material and adverse effect on the trading price or trading volume of our common stock.

We completed acquisitions in recent years. We have completed the integration process for such acquisitions. We have incurred material restructuring costs in recent periods, some of which included the termination of employees from acquired businesses. To the extent we acquire additional businesses in the future, we cannot ensure that integration objectives will not adversely affect our operating results. In connection with the integration process, we could experience the loss of key customers, decreases in revenues relative to current expectations and increases in operating costs, as well as the disruption of our ongoing businesses, any or all of which could limit our ability to achieve the anticipated benefits and potential synergies from the acquisitions and have a material adverse effect on our business, operating results, and financial condition.

Our business relationships, including customer relationships, and those of our acquired businesses may be subject to disruption due to uncertainty associated with the acquisitions.

In response to the completion of our acquisitions, customers, vendors, licensors, and other third parties with whom we do business or the acquired entities did business or otherwise have relationships may experience uncertainty associated with the acquisitions, and this uncertainty could materially affect their decisions with respect to existing or future business relationships with us. As a result, we are in many instances unable to evaluate the impact of the acquisition on certain assumed contract rights and obligations, including intellectual property rights.

These business relationships may be subject to disruption as customers and others may elect to delay or defer purchase or design-win decisions or switch to other suppliers due to the uncertainty about the direction of our offerings, any perceived unwillingness on our part to support existing legacy acquired products, or any general perceptions by customers or other third parties that impute operational or business challenges to us arising from the acquisitions. In addition, customers or other third parties may attempt to negotiate changes in existing business relationships, which may result in additional obligations imposed on us. These disruptions could have a material adverse effect on our business, operating results, and financial condition. Any loss of customers, customer products, design win opportunities, or other important strategic relationships could have a material adverse effect on our business, operating results, and financial condition and could have a material and adverse effect on the trading price or trading volume of our common stock.

In connection with the acquisition of Exar, we incurred $425.0 million of secured term loan indebtedness. We have since entered into an interest rate swap to hedge a substantial portion of our exposure to rising interest rates applicable to such indebtedness. We have not previously carried long-term indebtedness, which will adversely affect our operating results and cash-flows as we satisfy our underlying interest and principal payment obligations. We also have not previously engaged in hedging arrangements, which are subject to fair value measurement and hedge accounting rules and related documentation requirements. If we are unable to maintain favorable cash flow hedge accounting and changes in fair value of our interest rate swap are recorded in earnings, it may adversely affect our operating results.

MaxLinear financed the acquisition of Exar in part with a secured term loan facility in an aggregate principal amount of approximately $425.0 million, of which $247.0 million remained outstanding as of March 31, 2019. In November 2017, to hedge most of our existing interest rate risk, we entered into a fixed-for-floating interest rate swap agreement with an amortizing notional amount to swap a substantial portion of our variable rate LIBOR interest payments under the outstanding term loans for fixed interest payments bearing an interest rate of 1.74685%. Our outstanding debt is still subject to a 2.5% fixed applicable margin during the term of the loan. As a result of entering the swap, the interest rate on a substantial portion of our long-term debt is effectively fixed at approximately 4.25%. The term loan facility is secured by a first priority security interest in MaxLinear’s assets, subject to certain customary exceptions, as well as pledges of our equity interests in certain subsidiaries. Prior to the Exar acquisition, we had not previously carried

long-term debt on our balance sheet and have financed our operations principally through working capital generated from operations as well as sales and issuances of our equity securities. Our indebtedness will continue to adversely affect our operating expenses through interest payment obligations and will continue to adversely affect our ability to use cash generated from operations as we repay interest and principal under the term loans. In addition, although the term loan provisions do not include financial covenants, they do include operational covenants that may adversely affect our ability to engage in certain activities, including certain financing and acquisition transactions, stock repurchases, guarantees, and similar transactions, without obtaining the consent of the lenders, which may or may not be

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forthcoming. Accordingly, outstanding indebtedness could adversely affect our operational freedom or ability to pursue strategic transactions that we would otherwise consider to be in the best interests of stockholders.
Specifically, our indebtedness could have important consequences to investors in our common stock, including the following:

- our ability to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements, or other purposes may be limited or financing may be unavailable;
- a substantial portion of our cash flows must be dedicated to the payment of principal and interest on our indebtedness and other obligations and will not be available for use in our business;
- our level of indebtedness could limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate;
- our high degree of indebtedness will make us more vulnerable to changes in general economic conditions and/or a downturn in our business, thereby making it more difficult for us to satisfy our obligations;
- we are subject to a fixed rate of interest as a result of entering into a fixed-for-floating interest rate swap agreement in November 2017 to hedge against the potential that the interest rates applicable to our term loan will increase. Our interest rate under the term loan varies based on a fixed margin over either an adjusted LIBOR or an adjusted base rate. Interest rates, including LIBOR, have recently increased and may continue to increase in future periods. However, interest rate trends are inherently difficult to predict and interest rates may significantly increase or decrease over a short period of time. If interest rates were to decrease substantially, we would pay higher interest expense than market and, as a result, could seek to terminate or modify the terms of the swap prior to its maturity which could result in termination or other fees and the fair value of our interest rate swap may also decrease substantially; and
- we are also still subject to variable interest rate risk on the principal balance in excess of the notional amount of the interest rate swap because our interest rate under the term loan varies based on a fixed margin over either an adjusted LIBOR or an adjusted base rate. Interest rates, including LIBOR, have recently increased and may continue to increase in future periods. If we are unable to make anticipated prepayments of our indebtedness causing the unhedged portion of our indebtedness to substantially increase at the same time that interest rates were to increase substantially, it would adversely affect our operating results and could affect our ability to service the term loan indebtedness.

If we fail to make required debt payments, or if we fail to comply with other covenants in our debt service agreements, we would be in default under the terms of these agreements. Subject to customary cure rights, any default would permit the holders of the indebtedness to accelerate repayment of this debt and could cause defaults under other indebtedness that we have, any of which could have a material adverse effect on the trading price of our common stock.
Servicing our indebtedness will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial indebtedness.
In connection with the term loan facility, we incurred $425.0 million in aggregate principal amount of senior indebtedness, of which approximately $247.0 million remained outstanding at March 31, 2019. Our substantial indebtedness may increase our vulnerability to any generally adverse economic and industry conditions.
Our ability to make scheduled payments of the principal and interest when due, or to refinance our borrowings under the term loan facility, will depend on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to satisfy our obligations under our indebtedness, and any future indebtedness we may incur and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance the term loans or existing or future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the loan facility or future indebtedness.

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We may still incur substantially more debt or take other actions, which would intensify the risks discussed immediately above.

We and our subsidiaries may, subject to any limitations in the terms of the term loan facility, incur additional debt, secure existing or future debt, recapitalize our debt or take a number of other actions that are not limited by the terms of our term loans that could have the effect of diminishing our ability to make payments under the indebtedness when due. If we incur any additional debt, the related risks that we and our subsidiaries face could intensify.

We have recorded goodwill that could become impaired and adversely affect our future operating results.

Our business acquisitions are accounted for under the acquisition method of accounting by MaxLinear in accordance with accounting principles generally accepted in the United States. Under the acquisition method of accounting, the assets and liabilities of acquired businesses are recorded, as of completion, at their respective fair values and added to our assets and liabilities. Our reported financial condition and results of operations after completion of the acquisition reflect acquired businesses' balances and results but are not restated retroactively to reflect the historical financial position or results of operations of acquired businesses for periods prior to the acquisition. As a result, comparisons of future results against prior period results will be more difficult for investors.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible assets and identifiable intangible assets of acquired businesses based on their fair values as of the date of completion of the acquisition. The excess of the purchase price over those fair values is recorded as goodwill. Our acquisitions have resulted in the creation of goodwill based upon the application of the acquisition method of accounting. To the extent the value of goodwill or other intangible assets become impaired, we may be required to incur material charges relating to such impairment. We conduct our annual goodwill impairment analysis on October 31 each year, or more frequently if we believe indicators of impairment exist. In addition, there can be no guarantee that acquired intangible assets, particularly in-process research and development, will generate revenues or profits that we include in our forecast that is the basis for their fair values as of the acquisition date. Any such impairment charges relating to goodwill or other intangible assets could have a material impact on our operating results in future periods, and the announcement of a material impairment could have an adverse effect on the trading price and trading volume of our common stock. As of March 31, 2019, our balance sheet reflected goodwill of $238.3 million and other intangible assets of $230.6 million, including in-process research and development, or IPR&D, intangible assets of $2.9 million, and we could recognize impairment charges in the future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

None.

Recent Repurchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Exhibit Title
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(*)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(*) In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished pursuant to this item will not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAXLINEAR, INC.

(Registrant)

Date: May 1, 2019 By: /s/ Steven G. Litchfield
Steven G. Litchfield
Chief Financial Officer and Chief Corporate Strategy Officer
(Principal Financial Officer and Duly Authorized Officer)