MAXLINEAR INC
Form 10-Q
November 04, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015
OR

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

For the Transition Period From to
Commission file number: 001-34666
MaxLinear, Inc.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	14-1896129 (I.R.S. Employer Identification No.)
5966 La Place Court, Suite 100 Carlsbad, California (Address of principal executive offices)	92008 (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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer ¨	Accelerated filer þ
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of November 2, 2015, the registrant has 54,811,930 shares of Class A common stock, par value $0.0001, and 6,770,277 shares of Class B common stock, par value $0.0001, outstanding.

MAXLINEAR, INC.
QUARTERLY REPORT ON FORM 10-Q
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ITEM 1. FINANCIAL STATEMENTS
MAXLINEAR, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par amounts)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$58,149	$20,696
Short-term investments, available-for-sale	26,797	48,399
Accounts receivable, net	41,766	18,523
Inventory	36,265	10,858
Prepaid expenses and other current assets	4,500	2,438
Total current assets	167,477	100,914
Property and equipment, net	20,543	12,441
Long-term investments, available-for-sale	19,847	10,256
Intangible assets, net	79,655	10,386
Goodwill	49,373	1,201
Other long-term assets	5,715	513
Total assets	$342,610	$135,711
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$15,030	$7,509
Deferred revenue and deferred profit	4,138	3,612
Accrued price protection liability	19,704	10,018
Accrued expenses and other current liabilities	19,151	5,548
Accrued compensation	9,462	6,559
Total current liabilities	67,485	33,246
Other long-term liabilities	10,597	3,363
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value; 25,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.0001 par value; 550,000 shares authorized, no shares issued or outstanding	—	—
Class A common stock, $0.0001 par value; 500,000 shares authorized, 54,652 and 30,927 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	5	3
Class B common stock, $0.0001 par value; 500,000 shares authorized, 6,819 and 6,984 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	1	1
Additional paid-in capital	377,800	177,912
Accumulated other comprehensive loss	(601)	(25)
Accumulated deficit	(112,677)	(78,789)
Total stockholders' equity	264,528	99,102
Total liabilities and stockholders' equity	$342,610	$135,711

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net revenue	$95,191	$32,541	$201,411	$100,634
Cost of net revenue	44,141	12,632	101,748	38,426
Gross profit	51,050	19,909	99,663	62,208
Operating expenses:				
Research and development	23,491	14,957	62,765	41,944
Selling, general and administrative	25,457	8,141	60,021	24,590
Restructuring charges	425	—	11,814	—
Total operating expenses	49,373	23,098	134,600	66,534
Income (loss) from operations	1,677	(3,189)	(34,937)	(4,326)
Interest income	47	61	168	182
Other income (expense), net	407	(49)	351	(79)
Income (loss) before income taxes	2,131	(3,177)	(34,418)	(4,223)
Provision (benefit) for income taxes	549	28	(631)	456
Net income (loss)	$1,582	$(3,205)	$(33,787)	$(4,679)
Net income (loss) per share:				
Basic	$0.03	$(0.09)	$(0.67)	$(0.13)
Diluted	$0.03	$(0.09)	$(0.67)	$(0.13)
Shares used to compute net income (loss) per share:				
Basic	60,644	36,901	50,528	36,127
Diluted	63,209	36,901	50,528	36,127

See accompanying notes.

MAXLINEAR, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$1,582	$(3,205)	$(33,787)	$(4,679)
Other comprehensive loss, net of tax:				
Unrealized gain (loss) on investments, net of tax of $0 during three and nine months ended September 30, 2015 and 2014	66	(22)	99	(26)
Foreign currency translation adjustments, net of tax of $0 during three and nine months ended September 30, 2015 and 2014	(755)	(8)	(675)	(8)
Other comprehensive loss	(689)	(30)	(576)	(34)
Total comprehensive income (loss)	$893	$(3,235)	$(34,363)	$(4,713)

See accompanying notes.

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

	Nine Months Ended September 30, 2015	2014
Operating Activities		
Net loss	$(33,787)	$(4,679)
Adjustments to reconcile net loss to cash provided by operating activities:		
Amortization and depreciation	31,162	3,527
Amortization of investment premiums, net	261	578
Amortization of inventory step-up	14,244	—
Stock-based compensation	15,052	11,080
Deferred income taxes	(1,709)	11
Gain on disposal of property and equipment	(39)	—
Loss on sale of available-for-sale securities	21	—
Impairment of long-lived assets	153	8
Impairment of lease	6,161	—
Changes in operating assets and liabilities:		
Accounts receivable	5,971	(397)
Inventory	(10,069)	456
Prepaid and other assets	700	(402)
Accounts payable, accrued expenses and other current liabilities	(8,945)	66
Accrued compensation	4,845	3,670
Deferred revenue and deferred profit	526	2,234
Accrued price protection liability	6,200	1,468
Other long-term liabilities	(264)	382
Net cash provided by operating activities	30,483	18,002
Investing Activities		
Purchases of property and equipment	(1,480)	(7,767)
Purchases of intangible assets	(100)	—
Cash used in acquisition, net of cash acquired	(3,615)	—
Purchases of available-for-sale securities	(45,680)	(36,457)
Maturities of available-for-sale securities	57,508	35,895
Net cash provided by (used in) investing activities	6,633	(8,329)
Financing Activities		
Repurchases of common stock	(101)	—
Net proceeds from issuance of common stock	6,346	1,584
Minimum tax withholding paid on behalf of employees for restricted stock units	(4,528)	(3,641)
Equity issuance costs	(705)	—
Net cash provided by (used in) financing activities	1,012	(2,057)
Effect of exchange rate changes on cash and cash equivalents	(675)	(11)
Increase in cash and cash equivalents	37,453	7,605
Cash and cash equivalents at beginning of period	20,696	26,450
Cash and cash equivalents at end of period	$58,149	$34,055
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$—	$133
Supplemental disclosures of non-cash activities:		
Issuance of accrued share-based bonus plan	$5,459	$5,050
Accrued purchases of property and equipment	$61	$146

See accompanying notes.

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

1. Organization and Summary of Significant Accounting Policies

Description of Business

MaxLinear, Inc. (the Company) was incorporated in Delaware in September 2003. The Company is a provider of integrated, radio-frequency and mixed-signal integrated circuits for broadband communication and data center, metro, and long-haul transport network applications whose customers include 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 and terrestrial and satellite set top boxes, DOCSIS data and voice gateways, hybrid analog and digital televisions, satellite low-noise blocker transponders or outdoor units and optical modules for data center, metro, and long-haul transport network applications. The Company is a fabless semiconductor company focusing its resources on the design, sales and marketing of its products.

Acquisition of Entropic Communications, Inc.

On April 30, 2015, the Company completed its acquisition of Entropic Communications, Inc. (Entropic). Pursuant to the terms of the merger agreement dated as of February 3, 2015, by and among the Company, Entropic, and two wholly-owned subsidiaries of the Company, all of the Entropic outstanding shares were converted into the right to receive consideration consisting of cash and shares of the Company's Class A common stock. The Company paid an aggregate of $111.1 million and issued an aggregate of 20.4 million shares of the Company's Class A common stock, to the stockholders of Entropic. In addition, the Company assumed all outstanding Entropic stock options and unvested restricted stock units that were held by continuing service providers (as defined in the merger agreement). The Company used Entropic's cash and cash equivalents to fund a significant portion of the cash portion of the merger consideration and, to a lesser extent, its own cash and cash equivalents. The Company has made all of the material remaining disclosures required by ASC 805-10-50-2, Business Combinations. See Note 3.

In connection with the Company's acquisition of Entropic and to address issues primarily relating to the integration of the Company and Entropic businesses, the Company terminated the employment of 73 Entropic employees during the nine months ended September 30, 2015. See Note 4.

Basis of Presentation and Principles of Consolidation

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

The functional currency of certain foreign subsidiaries is the local currency. Accordingly, assets and liabilities of these foreign subsidiaries are translated at the current exchange rate at the balance sheet date and historical rates for equity. Revenue and expense components are translated at weighted average exchange rates in effect during the period. Gains and losses resulting from foreign currency translation are included as a component of stockholders' equity. Foreign currency transaction gains and losses are included in the results of operations.

The Company has prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. generally accepted accounting principles, or GAAP, for complete financial statements. In the opinion of management, all adjustments, which include all normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto for the year ended December 31, 2014 included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission, or SEC, on February 23, 2015, as amended by Amendment No. 1 on Form 10-K/A filed with the SEC on March 12, 2015.

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

Use of Estimates
The preparation of unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes of the unaudited consolidated financial statements. Actual results could differ from those estimates.
Revenue Recognition
Revenue is generated from sales of the Company’s integrated circuits. The Company recognizes revenue when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed or determinable and 4) collectability is reasonably assured. Title to product transfers to customers either when it is shipped to or received by the customer, based on the terms of the specific agreement with the customer.
Revenue is recorded based on the facts at the time of sale. Transactions for which the Company cannot reliably estimate the amount that will ultimately be collected at the time the product has shipped and title has transferred to the customer are deferred until the amount that is probable of collection can be determined. Items that are considered when determining the amounts that will be ultimately collected are: a customer’s overall creditworthiness and payment history; customer rights to return unsold product; customer rights to price protection; customer payment terms conditioned on sale or use of product by the customer; or extended payment terms granted to a customer.
A portion of the Company’s revenues are generated from sales made through distributors under agreements allowing for pricing credits and/or stock rotation rights of return. Revenues from the Company’s distributors accounted for approximately 14% of net revenue for the three and nine months ended September 30, 2015. Revenues from the Company’s distributors accounted for 30% and 28% of net revenue for the three and nine months ended September 30, 2014, respectively. Pricing credits to the Company’s distributors may result from its price protection and unit rebate provisions, among other factors. These pricing credits and/or stock rotation rights prevent the Company from being able to reliably estimate the final sales price of the inventory sold and the amount of inventory that could be returned pursuant to these agreements. As a result, for sales through distributors, the Company has determined that it does not meet all of the required revenue recognition criteria at the time it delivers its products to distributors as the final sales price is not fixed or determinable.
For these distributor transactions, revenue is not recognized until product is shipped to the end customer and the amount that will ultimately be collected is fixed or determinable. Upon shipment of product to these distributors, title to the inventory transfers to the distributor and the distributor is invoiced, generally with 30 day terms. On shipments to the Company’s distributors where revenue is not recognized, the Company records a trade receivable for the selling price as there is a legally enforceable right to payment, relieving the inventory for the carrying value of goods shipped since legal title has passed to the distributor, and records the corresponding gross profit in the consolidated balance sheet as a component of deferred revenue and deferred profit, representing the difference between the receivable recorded and the cost of inventory shipped. Future pricing credits and/or stock rotation rights from the Company’s distributors may result in the realization of a different amount of profit included in the Company’s future consolidated statements of operations than the amount recorded as deferred profit in the Company’s consolidated balance sheets.
The Company records reductions in revenue for estimated pricing adjustments related to price protection agreements with the Company’s end customers in the same period that the related revenue is recorded. Price protection pricing adjustments are recorded at the time of sale as a reduction to revenue and an increase in the Company’s accrued liabilities. The amount of these reductions is based on specific criteria included in the agreements and other factors known at the time. The Company accrues 100% of potential price protection adjustments at the time of sale and does not apply a breakage factor. The Company reverses the accrual for unclaimed price protection amounts as specific programs contractually end or when the Company believes unclaimed amounts are no longer subject to payment and will not be paid. See Note 6 for a summary of the Company's price protection activity.

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

Business Combinations

The Company applies the provisions of ASC 805, Business Combinations, in the accounting for its acquisitions. It requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed, at the acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

Costs to exit or restructure certain activities of an acquired company or the Company's internal operations are accounted for as termination and exit costs pursuant to ASC 420, Exit or Disposal Cost Obligations, and are accounted for separately from the business combination. A liability for costs associated with an exit or disposal activity is recognized and measured at its fair value in the consolidated statement of operations in the period in which the liability is incurred. When estimating the fair value of facility restructuring activities, assumptions are applied regarding estimated sub-lease payments to be received, which can differ materially from actual results. This may require the Company to revise its initial estimates which may materially affect the results of operations and financial position in the period the revision is made.

For a given acquisition, the Company may identify certain pre-acquisition contingencies as of the acquisition date and may extend its review and evaluation of these pre-acquisition contingencies throughout the measurement period in order to obtain sufficient information to assess whether the Company includes these contingencies as a part of the fair value estimates of assets acquired and liabilities assumed and, if so, to determine their estimated amounts.

If the Company cannot reasonably determine the fair value of a pre-acquisition contingency (non-income tax related) by the end of the measurement period, which is generally the case given the nature of such matters, the Company will recognize an asset or a liability for such pre-acquisition contingency if: (i) it is probable that an asset existed or a liability had been incurred at the acquisition date and (ii) the amount of the asset or liability can be reasonably estimated. Subsequent to the measurement period, changes in estimates of such contingencies will affect earnings and could have a material effect on results of operations and financial position.

In addition, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. The Company reevaluates these items quarterly based upon facts and circumstances that existed as of the acquisition date with any adjustments to the preliminary estimates being recorded to goodwill if identified within the measurement period. Subsequent to the measurement period or final determination of the tax allowance’s or contingency’s estimated value, whichever comes first, changes to these uncertain tax positions and tax related valuation allowances will affect the provision for income taxes in the consolidated statement of operations and could have a material impact on the results of operations and financial position.

Litigation and Settlement Costs

Legal costs are expensed as incurred. The Company is involved in disputes, litigation and other legal actions in the ordinary course of business. The Company continually evaluates uncertainties associated with litigation and records a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the loss or range of loss can be reasonably estimated.

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

Goodwill and Intangible Assets
Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the acquired net tangible and intangible assets. Intangible assets represent purchased intangible assets including developed technology and in-process research and development, or IPR&D, and technologies acquired or licensed from other companies. Purchased intangible assets with definitive lives are capitalized and amortized over their estimated useful lives. Technologies acquired or licensed from other companies are capitalized and amortized over the lesser of the terms of the agreement, or