MAXLINEAR INC
Form 10-Q
October 29, 2010

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, 2010

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	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
2051 Palomar Airport Road, Suite 100	
Carlsbad, California	**92011**
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	þ (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 October 25, 2010, the registrant has 10,767,676 shares of Class A common stock, par value $0.0001, and 20,582,532 shares of Class B common stock, par value $0.0001, outstanding.

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MAXLINEAR, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MAXLINEAR, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par amounts)

	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 21,290	$ 17,921
Investments, available-for-sale	76,591	
Accounts receivable	4,538	9,707
Inventory	6,357	2,850
Prepaid and other current assets	1,219	262
Total current assets	109,995	30,740
Property and equipment, net	4,078	2,627
Intangible assets	947	
Other long-term assets	180	2,406
Total assets	$ 115,200	$ 35,773
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 1,800	$ 4,162
Deferred revenue and deferred profit	10,530	9,850
Accrued expenses	1,321	1,346
Accrued compensation	2,395	1,721
Amounts due to related party	2,309	2,508
Current portion of capital lease obligations	104	124
Total current liabilities	18,459	19,711
Deferred rent	234	71
Capital lease obligations, net of current portion	42	115
Commitments and contingencies		
Convertible preferred stock, $0.0001 par value; 22,492 shares authorized:		
Series A convertible preferred stock, no shares and 11,696 shares authorized at September 30, 2010 (unaudited) and December 31, 2009, respectively; no shares and 7,554 shares issued and outstanding at September 30, 2010 (unaudited) and December 31, 2009, respectively; liquidation preference of $0 and $15,351 at September 30, 2010 (unaudited) and December 31, 2009, respectively		15,351
Series B convertible preferred stock, no shares and 10,796 shares authorized at September 30, 2010 (unaudited) and December 31, 2009, respectively; no shares and 6,972 shares issued and outstanding at September 30, 2010 (unaudited) and December 31, 2009, respectively; liquidation preference of $0 and $20,000 at September 30, 2010 (unaudited) and December 31, 2009, respectively		20,000

Stockholders equity (deficit):		
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 and 10,737 shares issued and outstanding at September 30, 2010 (unaudited) and December 31, 2009, respectively		1
Class A common stock, $0.0001 par value; 500,000 shares authorized, 10,541 shares and no shares issued and outstanding at September 30, 2010 (unaudited) and December 31, 2009, respectively	1	
Class B common stock, $0.0001 par value; 500,000 shares authorized, 20,760 shares and no shares issued and outstanding at September 30, 2010 (unaudited) and December 31, 2009, respectively	2	
Additional paid-in capital	113,713	2,301
Accumulated other comprehensive income	74	
Accumulated deficit	(17,325)	(21,777)
Total stockholders equity (deficit)	96,465	(19,475)
Total liabilities and stockholders equity (deficit)	$ 115,200	$ 35,773

See accompanying notes.

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MAXLINEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net revenue	$ 18,523	$ 16,200	$ 52,836	$ 36,147
Cost of net revenue	5,487	5,564	16,116	12,524
Gross profit	13,036	10,636	36,720	23,623
Operating expenses:				
Research and development	7,298	5,324	20,299	14,142
Selling, general and administrative	4,120	2,941	11,841	6,796
Total operating expenses	11,418	8,265	32,140	20,938
Income from operations	1,618	2,371	4,580	2,685
Interest income	106	18	221	27
Interest expense	(6)	(14)	(22)	(40)
Other expense, net	(20)		(29)	(27)
Income before income taxes	1,698	2,375	4,750	2,645
Provision for income taxes	346	209	298	234
Net income	1,352	2,166	4,452	2,411
Net income allocable to preferred stockholders		(2,166)	(1,215)	(2,411)
Net income attributable to common stockholders	$ 1,352	$	$ 3,237	$
Net income per share attributable to common stockholders [(1)]:				
Basic	$ 0.04	$	$ 0.13	$
Diluted	$ 0.04	$	$ 0.12	$
Shares used to compute net income per share attributable to common stockholders:				
Basic	31,264	10,030	25,100	9,963
Diluted	34,036	12,142	27,960	11,019

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

See accompanying notes.

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MAXLINEAR, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating Activities		
Net income	$ 4,452	$ 2,411
Adjustments to reconcile net income to cash provided by operating activities:		
Amortization and depreciation	1,282	581
Amortization of investment premiums, net	813	(1)
Stock-based compensation	2,977	474
Write down of property and equipment	33	32
Changes in operating assets and liabilities:		
Accounts receivable	5,170	(3,526)
Inventory	(3,507)	1,706
Prepaid and other assets	(1,067)	(835)
Accounts payable and accrued expenses	(3,166)	1,990
Amounts due to related party	(200)	1,678
Accrued compensation	673	1,181
Deferred revenue and deferred profit	680	(1,156)
Deferred rent	163	
Net cash provided by operating activities	8,303	4,535
Investing Activities		
Purchase of property and equipment	(2,100)	(1,056)
Purchases of intangibles	(1,135)	
Purchases of available-for-sale securities	(77,339)	
Sales of available-for-sale securities		1,800
Net cash (used in) provided by investing activities	(80,574)	744
Financing Activities		
Payments on capital leases	(93)	(79)
Proceeds on exercise of common stock options, net of repurchases	183	232
Proceeds from initial public offering, net of costs	75,550	35
Net cash provided by financing activities	75,640	188
Effect of exchange rate changes on cash and cash equivalents		(3)
Increase in cash and cash equivalents	3,369	5,464
Cash and cash equivalents at beginning of period	17,921	7,919
Cash and cash equivalents at end of period	$ 21,290	$ 13,383
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 22	$ 35

Cash paid for taxes	$	275	$	371
Supplemental disclosures of non cash investing and financing information:				
Unrealized gain (loss) on available-for-sale securities	$	65	$	(2)

See accompanying notes.

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MAXLINEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

1. Organization and Summary of Significant Accounting Policies

Description of Business

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

Initial Public Offering

In March 2010, the Company completed the initial public offering, or IPO, of its Class A common stock in which it sold and issued 5,920 shares of Class A common stock, including 771 shares related to the exercise of the underwriters over-allotment, at an issue price of $14.00 per share. The Company raised a total of $82.9 million in gross proceeds in the IPO, or approximately $72.9 million in net proceeds after deducting underwriting discounts and commissions of $5.8 million and other offering costs of $4.2 million. Immediately prior to the closing of the IPO, all shares of the Company s then-outstanding convertible preferred stock outstanding automatically converted into 14,526 shares of Class B common stock.

Basis of Presentation and Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of MaxLinear and its wholly owned subsidiaries MaxLinear Shanghai Limited, MaxLinear Limited and MaxLinear Asia Limited. In October 2007, MaxLinear Shanghai Limited was incorporated under the laws of the Republic of China and established for the purpose of providing support for the integrated circuit design. In November 2009, MaxLinear Limited was incorporated under the laws of the Islands of Bermuda and had no significant operations through September 30, 2010. In July 2010, MaxLinear Asia Limited was incorporated under the laws of Malaysia and had no significant operations through September 30, 2010. All intercompany transactions and investments have been eliminated in consolidation.

The Company has prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto for the year ended December 31, 2009 included in the final prospectus filed by the Company with the Securities and Exchange Commission on March 24, 2010 relating to the Company s Registration Statement on Form S-1/A (File No. 333-162947) for the Company s IPO.

Use of Estimates

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

Stock Split

On July 16, 2009, the Company effected a four-for-three forward stock split of the Company s outstanding common and preferred stock. On March 5, 2010, the Company effected a 1.5484-for-1 reverse stock split of the Company s outstanding common and preferred stock. The accompanying unaudited condensed consolidated financial statements and notes to the unaudited condensed consolidated financial statements give retroactive effect to both of the stock splits for all periods presented.

MAXLINEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

Intangible Assets

Technologies acquired or licensed from other companies are capitalized and amortized over the greater of the terms of the agreement, or estimated useful life, not to exceed three years.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income (loss) income includes certain changes in equity that are excluded from net income (loss), such as unrealized holding gains and losses on available-for-sale investments, net of tax, and translation gains and losses.

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

Revenue is recorded based on the facts at the time of sale. Amounts that are not probable of collection once the product has shipped and title has transferred to the customer are deferred until the amount that is probable of collection can be determined. Items that are considered when determining the amounts that will be ultimately collected are: a customer s overall creditworthiness and payment history, customer rights to return unsold product, customer rights to price protection, customer payment terms conditioned on sale or use of product by the customer, or extended payment terms granted to a customer.

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

The Company may provide rebates to end customers based on volume purchases. The Company estimates that all of the rebates will be achieved, reduces the average selling price of the product sold under the rebate program and defers revenue for the difference between the amount billed to the customer and the adjusted average selling price. Once the targeted level is achieved, the deferred revenue is recognized as revenue as rebated products are shipped to the end customer. Deferred revenue associated with rebate programs is included in deferred revenue and deferred profit in the consolidated balance sheet.

2. Net Income Per Share

Prior to the Company s IPO, net income per share was computed as required by provisions within the accounting standard for earnings per share, which established guidance regarding the computation of earnings per share, or EPS, by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the Company. The accounting standard for earnings per share requires earnings for the period, after deduction of preferred stock dividends, to be allocated between the common and preferred stockholders based on their respective rights to receive dividends, whether or not declared. Basic net income per share is then calculated by dividing income attributable to common stockholders (after the reduction for any preferred stock dividends assuming current income for the period had been distributed) by the weighted-average number of shares of common stock outstanding for the period, net of shares subject to repurchase by the Company. The accounting standard for earnings per share does not require the presentation of basic and diluted net income per share for securities other than common stock; therefore, the following net income per share amounts only pertain to the Company s common stock. The Company calculated diluted net income per share under the as-if-converted method unless the conversion of the preferred stock was anti-dilutive to basic net income per share. To the extent preferred stock was anti-dilutive, the Company calculated diluted net income per share under the two-class method.

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MAXLINEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Historical				
Numerator:				
Net income	$ 1,352	$ 2,166	$ 4,452	$ 2,411
Income allocable to preferred stockholders		(2,166)	(1,215)	(2,411)
Net income attributable to common stockholders	$ 1,352	$	$ 3,237	$
Denominator:				
Weighted average common shares outstanding - basic	31,264	10,030	25,100	9,963
Common equivalent shares from options to purchase common stock	2,772	2,112	2,860	1,056
Weighted average common shares outstanding - diluted	34,036	12,142	27,960	11,019
Net income per share:				
Basic	$ 0.04	$	$ 0.13	$
Diluted	$ 0.04	$	$ 0.12	$

MAXLINEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

The following table presents a summary of the Company s weighted average, common equivalent shares of potentially dilutive securities not included in the calculation of diluted net income per share due to its anti-dilutive nature:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Preferred stock		14,526		14,526
Common stock options	842	839	842	839
	842	15,365	842	15,365

3. Financial Instruments

The composition of financial instruments is as follows:

	September 30, 2010			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Money market funds	$ 219	$	$	$ 219
Government-sponsored enterprise securities	41,457	23		41,480
Corporate debt securities	35,069	47	(5)	35,111
	76,745	70	(5)	76,810
Less amounts included in cash and cash equivalents	(219)			(219)
	$ 76,526	$ 70	$ (5)	$ 76,591

The Company had no financial instruments as of December 31, 2009.

As of September 30, 2010, the gross unrealized losses of $5 represent a temporary impairment on the corporate debt securities related to multiple issuers, which have been in loss positions for less than 12 consecutive months, and were primarily caused by fluctuations in U.S. interest rates. As of September 30, 2010, the Company held a government-sponsored enterprise security and a corporate debt security having maturities greater than one year but less than two years with an aggregate amortized cost and fair value of $9,199 and $9,221, respectively, with the remaining investment securities having maturities of less than one year.

The fair values of the Company s financial instruments are recorded using a hierarchal 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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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

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

		Fair Value Measurements at September 30, 2010		
	Balance at September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 219	$ 219	$	$
Government-sponsored enterprise securities	41,480		41,480	
Corporate debt securities	35,111		35,111	
	$ 76,810	$ 219	$ 76,591	$

4. Balance Sheet Details

Inventory consists of the following:

	September 30, 2010	December 31, 2009
Work-in-process	$ 4,027	$ 1,615
Finished goods	2,330	1,235
	$ 6,357	$ 2,850

Property and equipment consist of the following:

	Useful Life (in Years)	September 30, 2010	December 31, 2009
Furniture and fixtures	5	$ 274	$ 270
Machinery and equipment	5	4,454	3,223
Masks and production equipment	2	1,996	824
Software	3	544	478
Leasehold improvements	4-5	151	97

		7,419		4,892
Less accumulated depreciation and amortization		(3,341)		(2,265)
	$	4,078	$	2,627

The net book value of property and equipment acquired under capital leases totaled $117 and $207 at September 30, 2010 and December 31, 2009, respectively.

Deferred revenue and deferred profit consist of the following:

	September 30, 2010		December 31, 2009	
Deferred revenue rebates	$	381	$	202
Deferred revenue distributor transactions		13,740		12,546
Deferred cost of net revenue distributor transactions		(3,591)		(2,898)
	$	10,530	$	9,850

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MAXLINEAR, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

Accrued expenses consist of the following:

	September 30, 2010	December 31, 2009
Accrued software license payments	$ 454	$ 162
Accrued professional fees	297	546
Accrued intangible assets purchases	25	
Accrued inventory purchases		262
Other	545	376
	$ 1,321	$ 1,346

5. Licensing Agreements and Lease Commitments

Licensing Agreements

The Company has entered into several licensing agreements which allow it to use certain software or intellectual property for specified periods of time. Research and development expense associated with software and intellectual property licensing agreements was $685 and $1,899 for the three and nine months ended September 30, 2010, respectively. Research and development expense associated with software and intellectual property licensing agreements was $663 and $2,510 for the three and nine months ended September 30, 2009, respectively. The Company had milestone-related payment commitments of $290 as well as production-related royalty commitments related to acquired intellectual property at September 30, 2010.

Lease Commitments

During January 2010, the Company entered into a five-year noncancelable operating lease agreement for a research and development facility in Irvine, CA. The lease is subject to rent holidays and rent increases and commenced in April 2010 with an option to extend the lease for an additional five years. Future minimum payments under the operating lease for the years ending December 31, 2010, 2011, 2012, 2013, 2014 and 2015 are $20, $83, $87, $90, $94 and $24, respectively.

The Company had firm purchase order commitments for the acquisition of inventory as of September 30, 2010 and December 31, 2009 of $3,187 and $4,380, respectively.

6. Stock-Based Compensation and Employee Benefit Plans

Stock-Based Compensation

The Company uses the Black-Scholes valuation model to calculate the fair value of stock-based awards to employees. Stock-based compensation expense is recognized over the vesting period using the straight-line method and is classified in the consolidated statements of income based on the department to which the related employee reports. The fair value of employee stock-based awards was estimated at the grant date using the following assumptions:

Equity Incentive Plan Shares

	Nine Months Ended September 30,	
	2010	2009
Weighted-average grant date fair value per share	$ 7.10	$ 1.60