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
TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION
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.

3

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.

5

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 estimated useful life. The Company capitalizes IPR&D projects acquired as part of a business combination. On completion of each project, IPR&D assets are reclassified to developed technology and amortized over their estimated useful lives.

Impairment of Goodwill and Long-Lived Assets

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. Goodwill is not amortized but is tested for impairment using a two-step method. 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. The Company tests by reporting unit, goodwill and other indefinite-lived intangible assets for impairment as of October 31 or more frequently if it believes indicators of impairment exist.

During development, IPR&D is not subject to amortization and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company reviews indefinite-lived intangible assets for impairment as of October 31, the date of its annual goodwill impairment review or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of indefinite-lived intangible assets is measured by comparing the carrying amount of the asset to the future discounted cash flows that asset is expected to generate. Once an IPR&D project is complete, it becomes a definite lived intangible asset and is evaluated for impairment both immediately prior to its change in classification and thereafter in accordance with the Company's policy for long-lived assets.

The Company regularly reviews the carrying amount of its long-lived assets, as well as the useful lives, to determine whether indicators of impairment may exist which warrant adjustments to carrying values or estimated useful lives. An impairment loss would be 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 would be measured based on the excess of the carrying amount of the asset over the asset’s fair value.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company beginning in the first quarter of fiscal year 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In August 2014, the FASB issued new accounting guidance related to the disclosures around going concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance will be effective for the Company beginning in the first quarter of fiscal year 2017. Early adoption is permitted. The Company does not expect the adoption of this standard to significantly impact its financial statements.

10

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

2. Net Income (Loss) Per Share

Net income (loss) per share is computed as required by the accounting standard for earnings per share, or EPS. Basic 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 (loss) 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.

The Company has two classes of stock outstanding, Class A common stock and Class B common stock. The economic rights of the Class A common stock and Class B common stock, including rights in connection with dividends and payments upon a liquidation or merger are identical, and the Class A common stock and Class B common stock will be treated equally, identically and ratably, unless differential treatment is approved by the Class A common stock and Class B common stock, each voting separately as a class. The Company computes basic earnings per share by dividing net income (loss) by the weighted average number of shares of Class A and Class B common stock outstanding during the period. For diluted earnings per share, the Company divides net income (loss) 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,	
	2015	2014	2015	2014
Numerator:				
Net income (loss)	$1,582	$(3,205)	$(33,787)	$(4,679)
Denominator:				
Weighted average common shares outstanding—basic	60,644	36,901	50,528	36,127
Dilutive common stock equivalents	2,565	—	—	—
Weighted average common shares outstanding—diluted	63,209	36,901	50,528	36,127
Net income (loss) per share:				
Basic	$0.03	$(0.09)	$(0.67)	$(0.13)
Diluted	$0.03	$(0.09)	$(0.67)	$(0.13)

The Company excluded 1.0 million and 2.8 million common stock equivalents for the three and nine months ended September 30, 2015, respectively, and 3.1 million and 3.2 million common stock equivalents for the three and nine months ended September 30, 2014, respectively, resulting from outstanding equity awards for the calculation of diluted net income (loss) per share due to their anti-dilutive nature.

3. Business Combination

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 ("the Merger Agreement"), 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.

11

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

As a result of the acquisition, the Company expects to benefit from the economies of scale across engineering and supply chain operations, as well as from elimination of redundancy across engineering, sales, and general and administrative functions. Entropic has been recognized for pioneering the MoCA® (Multimedia over Coax Alliance) home networking standard and inventing Direct Broadcast Satellite outdoor unit (“DBS ODU”) solutions which consist of band translation switch ("BTS") and channel stacking switch ("CSS") products which simplify the installation required to support simultaneous reception of multiple channels from multiple satellites over a single cable. Entropic has a rich history of innovation and deep expertise in RF, analog/mixed signal and digital signal processing technologies. Entropic’s silicon solutions have been broadly deployed across major cable, satellite, and fiber service providers. The Company expects the acquisition of Entropic to add significant scale to the Company's analog/mixed-signal business, expand the Company’s addressable market and enhance the strategic value of the Company’s offerings to broadband and access partners, OEM customers, and service providers.

The merger has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations, with MaxLinear treated as the accounting acquirer. Under this method of accounting, the Company recorded the acquisition based on the fair value of the consideration given and the cash consideration paid. The Company allocated the acquisition consideration paid to the identifiable assets acquired and liabilities assumed based on their respective preliminary fair values at the date of completion of the merger. Any excess of the value of consideration paid over the aggregate fair value of those net assets has been recorded as goodwill.

The total consideration for the Entropic acquisition of $289.4 million is comprised of the equity value of shares of the Company's common stock that were issued in the transaction of $173.8 million, the portion of outstanding equity awards deemed to have been earned as of April 30, 2015 of $4.5 million and cash of $111.1 million. The portion of outstanding equity awards deemed not to have been earned of $9.3 million as of April 30, 2015 will be expensed over the remaining future vesting period, including $0.8 million and $3.2 million for the three months and nine months ended September 30, 2015. Assumed equity awards consisted of 1.9 million of the Company's stock options and 1.3 million restricted stock units.

The Company capitalized $0.7 million of costs related to the registration and issuance of the 20.4 million shares of the Company’s Class A common stock to Entropic’s stockholders upon completion of the merger. In addition, the Company registered an additional 3.2 million shares related to shares of the Company’s Class A common stock which may be issued pursuant to outstanding equity awards under the former Entropic Stock Plans.

The estimated fair value of the purchase price consideration consisted of the following:

Cash	$111,125
Class A common stock issued	173,781
Equity awards assumed	4,485
Total purchase consideration	$289,391

Pursuant to the Company's business combinations accounting policy, the Company estimated the preliminary fair values of net tangible and intangible assets acquired and the excess of the consideration transferred over the aggregate of such fair values was recorded as goodwill. The preliminary fair values of net tangible assets and intangible assets acquired were based upon preliminary valuations and the Company's estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas that remain preliminary relate to the fair values of liabilities acquired, certain legal matters, income and non-income based taxes and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair values of the net assets acquired during the measurement period.

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

The following table summarizes the preliminary allocation of the assets acquired and liabilities assumed at the acquisition date:

	Fair Value
Cash, cash equivalents and short-term investments	$107,510
Accounts receivable	29,214
Inventory	29,582
Prepaid expenses	5,680
Property and equipment, net	18,914
Other long-term assets	2,419
Intangible assets	92,400
Accounts payable	(17,552)
Accrued price protection liability	(3,486)
Accrued expenses and other current liabilities	(10,855)
Accrued compensation	(3,517)
Deferred tax liability	(1,592)
Other long-term liabilities	(7,498)
Total identifiable net assets	241,219
Goodwill	48,172
Fair value of net assets acquired	$289,391

In connection with the acquisition of Entropic, the Company has assumed liabilities related to Entropic product quality issues, warranty claims and contract obligations which are included in accrued expenses and other current liabilities in the purchase price allocation above.

The fair value of inventories acquired included an acquisition accounting fair market value step-up of $14.2 million, which was fully amortized as of September 30, 2015. During the three and nine months ended September 30, 2015, the Company recognized $0.9 million and $14.2 million, respectively, as a component of cost of sales as the inventory acquired on April 30, 2015 was sold to the Company’s customers.

During the three months ended September 30, 2015, the Company recorded a net $0.5 million adjustment to goodwill primarily due to a $0.4 million increase related to product settlements, $0.3 million increase related to foreign taxes payables and a return to provision true-up, offset by $0.2 million decrease related to valuation allowance adjustment to deferred tax liability.

The Company is subject to legal and regulatory requirements, including but not limited to those related to taxation in each of the jurisdictions in the countries in which it operates. The Company has conducted a preliminary assessment of liabilities arising from these tax matters in each of these jurisdictions, and has recognized provisional amounts in its initial accounting for the acquisition of Entropic for the identified liabilities. However, the Company is continuing its procedures to identify information pertaining to these matters as well as other legal and regulatory matters during the measurement period. The Company has not obtained all necessary information to finalize its provisional amounts pertaining to income taxes and loss contingencies associated with legal and regulatory matters. If new information is obtained about facts and circumstances that existed at the acquisition date, the Company will either adjust its measurement of provisional amounts or recognize and measure liabilities not previously identified.

Acquisition and integration-related costs of $5.3 million were included in selling, general, and administrative expenses in the Company's statement of operations for the nine months ended September 30, 2015.

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

The following table presents details of the preliminary identified intangible assets acquired through the acquisition of Entropic:

	Estimated Useful Life (in years)	Fair Value
Developed technology	7.0	$43,600
In-process research and development	n/a	18,200
Trademarks and trade names	7.0	1,700
Customer relationships	5.0	4,700
Backlog	0.7	24,200
Total intangible assets		$92,400

The fair value of the $92.4 million of identified intangible assets acquired in connection with the Entropic acquisition was estimated using an income approach. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. Indications of value are developed by discounting future net cash flows to their present value at market-based rates of return. More specifically, the fair value of the developed technology, IPR&D and backlog assets was determined using the multi-period excess earnings method, or MPEEM. MPEEM is an income approach to fair value measurement attributable to a specific intangible asset being valued from the asset grouping’s overall cash-flow stream. MPEEM isolates the expected future discounted cash-flow stream to its net present value. Significant factors considered in the calculation of the developed technology and IPR&D intangible assets were the risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. Each project was analyzed to determine the unique technological innovations, the existence and reliance on core technology, the existence of any alternative future use or current technological feasibility and the complexity, cost, and time to complete the remaining development. Future cash flows for each project were estimated based on forecasted revenue and costs, taking into account the expected product life cycles, market penetration, and growth rates. Developed technology will begin amortization immediately and IPR&D will begin amortization upon the completion of each project. If any of the projects are abandoned, the Company will be required to impair the related IPR&D asset.

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 entered into a restructuring plan. See Note 4.

The following unaudited pro forma financial information presents the combined results of operations for each of the periods presented, as if the acquisition had occurred at the beginning of fiscal year 2014:

	Nine Months Ended September 30	
	2015	2014
Net revenues	$272,781	$249,667
Net income (loss)	6,676	(113,911)

The following adjustments were included in the unaudited pro forma financial information:

	Nine Months Ended September 30	
	2015	2014
Amortization and depreciation of intangible assets and property, plant and equipment acquired	$(20,327)	$22,249
Amortization of inventory step-up	(14,244)	14,244
Acquisition and integration expenses	(13,339)	—
Restructuring charges	(11,247)	—
	$(59,157)	$36,493

The pro forma data is presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations of the combined business had the merger actually occurred at the beginning of fiscal year 2014 or of the results of future operations of the combined business. The unaudited pro forma financial information does not reflect any operating efficiencies and cost saving that may be realized from the integration of the acquisition in the Company's unaudited consolidated statements of operations.

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

For the three months ended September 30, 2015, $54.5 million of revenue and $27.0 million of gross profit of former Entropic operations since the acquisition date are included in the Company's unaudited consolidated statements of operations. For the nine months ended September 30, 2015, $86.8 million of revenue and $30.0 million of gross profit of former Entropic operations are included.

Acquisition of Physpeed, Co., Ltd.

On October 31, 2014, the Company acquired 100% of the outstanding common shares of Physpeed Co., Ltd. (“Physpeed”), a privately held developer of high-speed physical layer interconnect products addressing enterprise and telecommunications infrastructure market applications. The Company paid $9.3 million in cash in exchange for all outstanding shares of capital stock and equity of Physpeed. $1.1 million of the consideration payable to the former shareholders of Physpeed was placed into escrow pursuant to the terms of the definitive merger agreement. The escrow release date is twelve months following the closing date of October 31, 2014 and expected to be paid out after October 31,2015. In addition, the definitive merger agreement provided for potential consideration of $1.7 million of held back merger proceeds for the former principal shareholders of Physpeed which will be paid over a two year period contingent upon continued employment and potential earn-out consideration of up to $0.75 million to the former shareholders of Physpeed for the achievement of certain 2015 and 2016 revenue milestones. As of September 30, 2015, $0.8 million of held back merger proceeds have been paid. The Company had also entered into retention and performance-based agreements with Physpeed employees for up to $3.25 million to be paid in cash or shares of MaxLinear Class A common stock based on the achievement of certain 2015 and 2016 revenue milestones.

As a result of the acquisition, the Company expects to reduce costs through economies of scale. The acquisition of Physpeed significantly accelerates the Company's total addressable market expansion efforts into infrastructure for data center, as well as metro and long-haul telecommunications operators. Physpeed’s expertise in high-speed analog design, combined with the Company's proven low-power digital CMOS mixed signal-integration and DSP capabilities, is expected to bring to market solutions that will uniquely enable the data traffic growth generated from smartphones and tablets, and over-the-top, or OTT, streaming video, in addition to cloud computing and data analytics in hyper-scale data centers. The goodwill of $1.2 million arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and Physpeed. None of the goodwill recognized is expected to be deductible for income tax purposes.

In accordance with accounting principles generally accepted in the United States, the Company accounted for the merger using the acquisition method of accounting for business combinations. Under this method of accounting, the Company recorded the acquisition based on the fair value of the consideration given and the cash consideration paid in the merger at the time of the merger. The Company allocated the purchase price to the identifiable assets acquired and liabilities assumed based on their respective fair values at the date of the completion of the merger. Any excess of the value of consideration paid over the aggregate fair value of those net assets has been recorded as goodwill.

The following table summarizes the consideration paid for Physpeed:

Cash	$9,250
Contingent consideration	265
Fair value of total consideration transferred	$9,515

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

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date. The Company completed the purchase price allocation for its acquisition of Physpeed as of December 31, 2014:

Financial assets	$114	
Accounts receivable	447	
Prepaid expenses	28	
Inventory	69	
Fixed assets	56	
Identifiable intangible assets	10,000	
Financial liabilities	(65	)
Net deferred tax liability	(2,335	)
Total identifiable net assets	8,314	
Goodwill	1,201	
	$9,515	

Acquisition-related costs of $0.3 million were included in selling, general, and administrative expenses in the Company's statement of operations for the year ended December 31, 2014.

The fair value of the acquired identifiable intangible assets of $10.0 million consists of developed technology of $2.7 million and IPR&D of $7.3 million. Both the developed technology and IPR&D are related to optical interconnect interface physical layers products and the estimated useful lives have been assessed to be seven years for the developed technology. Developed technology will be amortized immediately and IPR&D will begin amortization upon the completion of each project. If any of the projects are abandoned, the Company will be required to impair the related IPR&D asset. The fair value of the developed technology and IPR&D was determined using the multi-period excess earnings method, or MPEEM. MPEEM is an income approach to fair value measurement attributable to a specific intangible asset being valued from the asset grouping's overall cash-flow stream. MPEEM isolates the expected future discounted cash-flow stream to their net present value. Significant factors considered in the calculation were the risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. Each project was analyzed to determine the unique technological innovations, the existence and reliance on core technology, the existence of any alternative future use or current technological feasibility and the complexity, cost, and time to complete the remaining development. Future cash flows for each project were estimated based on forecasted revenue and costs, taking into account the expected product life cycles, market penetration, and growth rates.

Compensation Arrangements

In connection with the acquisition of Physpeed, the Company has agreed to pay additional consideration in future periods. There was a holdback of the merger proceeds whereby the former principal shareholders of Physpeed will be paid a quarterly amount of $0.2 million beginning on January 31, 2015 and ending on October 31, 2016 for a total of $1.7 million. Certain employees of Physpeed will be paid a total of $0.1 million of which $0.07 million will be paid in 2015 and $0.05 million will be paid in 2016. These payments are accounted for as transactions separate from the business combination as the payments are contingent upon continued employment and will be recorded as post-combination compensation expense in the Company's financial statements during the service period. The Company also agreed to a working capital adjustment of $0.04 million that was settled by December 31, 2014.

Earn-Out

The contingent earn-out consideration had an estimated fair value of $0.3 million at the date of acquisition. The earn-out is payable up to $0.75 million to the former shareholders of Physpeed. The 2015 earn-out is based on $0.375 million multiplied by the 2015 revenue percentage as defined in the definitive merger agreement. The 2016 earn-out is based on $0.375 million multiplied by the 2016 revenue percentage as defined in the definitive merger agreement. Subsequent changes to the fair value will be recorded through earnings. The fair value of the earn-out was $0.1 million and $0.3 million at September 30, 2015 and December 31, 2014, respectively. The change in the fair value of the earn-out was primarily due to revisions to the Company's expectations of earn-out achievement.

16

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

RSU Awards

The Company will grant restricted stock units, or RSUs, under its equity incentive plan to Physpeed continuing employees if certain 2015 and 2016 revenue targets are met contingent upon continued employment. The total maximum amounts of these RSUs are $3.25 million. These participants will be eligible to receive $1.625 million of the RSUs in 2015 and $1.625 million in 2016.

The 2015 performance grant, if any earned, will be based on the calculation of the 2015 maximum revenue RSU amount multiplied by the 2015 revenue percentage as defined in the definitive merger agreement. The 2015 maximum revenue RSU amount is 50% of the aggregate maximum RSU award value divided by the 2015 average company share price (the average closing sales prices of stock trading on the New York Stock exchange over five consecutive trading days ending on the trade date that is the third trading date prior to the 2015 determination date (no later than ten business days after filing the Form 10-K for the 2015 fiscal year)). Qualifying revenues are the net revenues recognized in the 2015 fiscal year directly attributable to sales of Physpeed products or the Company’s provision of non-recurring engineering services exclusively with respect to the Physpeed products in accordance with U.S. GAAP reflected in the Company’s audited financial statements.

The 2016 performance grant, if any earned, will be based on the calculation of the 2016 maximum revenue RSU amount multiplied by the 2016 revenue percentage as defined in the definitive merger agreement. The 2016 maximum revenue RSU amount is 50% of the aggregate maximum RSU award value divided by the 2016 average company share price (the average closing sales prices of stock trading on the New York Stock exchange over five consecutive trading days ending on the trade date that is the third trading date prior to the 2016 determination date (no later than ten business days after filing the Form 10-K for the 2016 fiscal year). Qualifying revenues are the net revenues recognized in the 2016 fiscal year directly attributable to sales of Physpeed products or the Company’s provision of non-recurring engineering services exclusively with respect to the Physpeed products in accordance with U.S. GAAP reflected in the Company’s audited financial statements.

The Company will record compensation expense for the 2015 RSUs over a 14 month service period from October 31, 2014 through December 31, 2015. The Company will record compensation expense for the 2016 RSUs over a 26 month service period from October 31, 2014 through December 31, 2016. The Company has recorded an accrual for the stock-based compensation expense for the 2015 and 2016 RSUs of $0.7 million at September 30, 2015.

4. Restructuring Activity

In connection with the Company's acquisition of Entropic, the Company entered into a restructuring plan to address matters primarily relating to the integration of the Company and Entropic businesses. In connection with this plan, the Company terminated the employment of 73 Entropic employees during the nine months ended September 30, 2015. The Company recognized associated non-recurring employee separation charges of approximately $5.7 million in the nine months ended September 30, 2015 related to these terminations. Included in these employee separation charges is $1.5 million of stock compensation for accelerated stock options and RSUs vesting due to double trigger change of control agreements and other special agreements in effect with certain Entropic employees.

Additionally, in connection with the restructuring plan, the Company ceased use of the majority of Entropic's former headquarters. Accordingly, the Company recognized lease impairment charges of $1.1 million based on the adjustment to the net present value of the remaining lease obligation on the cease use date. The Company also recorded impairment charges of $3.7 million related to leasehold improvements on the unused premises.

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

	Nine Months Ended September 30, 2015
Employee separation expenses	$5,653
Lease related impairment [1]	6,161
	$11,814

(1) Includes $0.6 million in restructuring charges related to an Entropic lease that was restructured during prior to the completion of the acquisition. The Company recorded an adjustment to the lease restructuring due to changes in market conditions.

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

The following table presents a roll-forward of our restructuring liability as of September 30, 2015, which is included in accrued expenses and other current liabilities in the unaudited consolidated balance sheets:

	Employee Separation Expenses	Lease Related Impairment	Total
Liability as of December 31, 2014	$—	$—	$—
Restructuring charges [1]	5,653	6,161	11,814
Cash payments	(4,258)	(466)	(4,724)
Non-cash charges	(1,309)	(4,442)	(5,751)
Liability as of September 30, 2015	$86	$1,253	$1,339

(1) Includes $0.6 million in restructuring charges related to an Entropic lease that was restructured during prior to the completion of the acquisition. The Company recorded an adjustment to the lease restructuring due to changes in market conditions.

5. Financial Instruments

The composition of financial instruments is as follows:

	September 30, 2015			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Assets				
Money market funds	$13,088	$—	$—	$13,088
Government debt securities	11,810	11	—	11,821
Corporate debt securities	34,812	17	(6)	34,823
	59,710	28	(6)	59,732
Less amounts included in cash and cash equivalents	(13,088)	—	—	(13,088)
	$46,622	$28	$(6)	$46,644

	Fair Value at September 30, 2015
Liabilities	
Contingent Consideration	$142
Total	$142

	December 31, 2014			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Assets				
Money market funds	$1,858	$—	$—	$1,858
Government debt securities	27,154	5	(8)	27,151
Corporate debt securities	31,543	3	(42)	31,504
	60,555	8	(50)	60,513
Less amounts included in cash and cash equivalents	(1,858)	—	—	(1,858)
	$58,697	$8	$(50)	$58,655

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

	Fair Value at December 31, 2014
Liabilities	
Contingent Consideration	$265
Total	$265

As of September 30, 2015, the Company held 7 government and corporate debt securities with an aggregate fair value of $11.1 million that were in an unrealized loss position for less than 12 months. The gross unrealized losses of $0.006 million at September 30, 2015 represent temporary impairments on government and corporate debt securities related to multiple issuers, and were primarily caused by fluctuations in U.S. interest rates. The Company evaluates securities for other-than-temporary impairment on a quarterly basis. Impairment is evaluated considering numerous factors, and their relative significance varies depending on the situation. Factors considered include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer; including changes in the financial condition of the security's underlying collateral; any downgrades of the security by a rating agency; nonpayment of scheduled interest, or the reduction or elimination of dividends; as well as our intent and ability to hold the security in order to allow for an anticipated recovery in fair value.

All of the Company's long-term available-for-sale securities were due between 1 and 2 years as of September 30, 2015.

The fair values of the Company's financial instruments are the amounts that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants and are recorded using a 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.

The Company classifies its financial instruments within Level 1 or Level 2 of the fair value hierarchy on the basis of valuations using quoted market prices or alternate pricing sources and models utilizing market observable inputs, respectively. The Company's money market funds were valued based on quoted prices for the specific securities in an active market and were therefore classified as Level 1. The government and corporate debt securities have been valued on the basis of valuations provided by third-party pricing services, as derived from such services' pricing models. The pricing services may use a consensus price which is a weighted average price based on multiple sources or mathematical calculations to determine the valuation for a security, and have been classified as Level 2. The Company reviews Level 2 inputs and fair value for reasonableness and the values may be further validated by comparison to independent pricing sources. In addition, 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. As of September 30, 2015 and December 31, 2014, the Company has not made any adjustments to the prices obtained from its third party pricing providers. The contingent liability is classified as Level 3 as of September 30, 2015 and December 31, 2014 and is valued using an internal rate of return model. The assumptions used in preparing the internal rate of return model include estimates for future revenues related to Physpeed products and services and a discount factor of 0.77% to 0.38% and 0.54% to 0.33% at September 30, 2015 and December 31, 2014, respectively. The assumptions used in preparing the internal rate of return model include estimates for outcome if milestone goals are achieved, the probability of achieving each outcome and discount rates. Significant changes in any of the unobservable inputs used in the fair value measurement of contingent consideration in isolation could result in a significantly lower or higher fair value. A change in estimated future revenues would be accompanied by a directionally similar change in fair value.

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

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

		Fair Value Measurements at September 30, 2015		
	Balance at September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds	$13,088	$13,088	$—	$—
Government debt securities	11,821	—	11,821	—
Corporate debt securities	34,823	—	34,823	—
	$59,732	$13,088	$46,644	$—
Liabilities				
Contingent consideration	$142	$—	$—	$142
	$142	$—	$—	$142

		Fair Value Measurements at December 31, 2014		
	Balance at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds	$1,858	$1,858	$—	$—
Government debt securities	27,151	—	27,151	—
Corporate debt securities	31,504	—	31,504	—
	$60,513	$1,858	$58,655	$—
Liabilities				
Contingent consideration	$265	$—	$—	$265
	$265	$—	$—	$265

The following summarizes the activity in Level 3 financial instruments:

	Nine Months Ended September 30, 2015
Contingent Consideration (1)	
Beginning balance	$265
(Gain) loss recognized in earnings (2)	(123)
Ending balance	$142
Net gain (loss) for the period included in earnings attributable to contingent consideration held at the end of the period:	$(123)

(1) In connection with the acquisition of Physpeed, the Company recorded contingent consideration based upon the expected achievement of certain 2015 and 2016 revenue milestones. Changes to the fair value of contingent consideration due to changes in assumptions used in preparing the valuation model are recorded in selling, general and administrative expense in the statement of operations.

(2) Changes to the estimated fair value of contingent consideration were primarily due to revisions to the Company's expectations of earn-out achievement.

There were no transfers between Level 1, Level 2 or Level 3 securities in the three and nine months ended September 30, 2015.

20

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

6. Balance Sheet Details

Cash and cash equivalents and investments consist of the following:

	September 30, 2015	December 31, 2014
Cash and cash equivalents	$58,149	$20,696
Short-term investments	26,797	48,399
Long-term investments	19,847	10,256
	$104,793	$79,351

Inventory consists of the following:

	September 30, 2015	December 31, 2014
Work-in-process	$19,667	$4,169
Finished goods	16,598	6,689
	$36,265	$10,858

Property and equipment consist of the following:

	Useful Life (in Years)	September 30, 2015	December 31, 2014
Furniture and fixtures	5	$2,388	$735
Machinery and equipment	3 -5	22,997	12,695
Masks and production equipment	2	8,062	8,672
Software	3	3,020	905
Leasehold improvements	4 -5	10,492	4,451
Construction in progress	N/A	84	276
		47,043	27,734
Less accumulated depreciation and amortization		(26,500)	(15,293)
		$20,543	$12,441

Intangible assets, net consist of the following:

	Weighted Average Amortization Period (in Years)	September 30, 2015	December 31, 2014
Licensed technology	3	$2,921	$2,821
Developed technology	7	46,700	2,700
Trademarks and trade names	7	1,700	—
Customer relationships	5	4,700	—
Backlog	1	24,200	—
Less accumulated amortization		(25,666)	(2,435)
		54,555	3,086
In-process research and development		25,100	7,300
		$79,655	$10,386

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

The following table presents future amortization of the Company’s intangible assets at September 30, 2015:

	Amortization
2015	$6,693
2016	8,000
2017	7,888
2018	7,871
2019	7,854
Thereafter	16,249
Total	$54,555

Deferred revenue and deferred profit consist of the following:

	September 30, 2015	December 31, 2014
Deferred revenue—rebates	$23	$21
Deferred revenue—distributor transactions	6,112	5,585
Deferred cost of net revenue—distributor transactions	(1,997)	(1,994)
	$4,138	$3,612

Accrued price protection liability consists of the following activity:

	Nine Months Ended September 30,	
	2015	2014
Beginning balance	$10,018	$7,880
Additional liability from acquisition	1,309	—
Charged as a reduction of revenue	28,522	15,920
Reversal of unclaimed rebates	(112)	(27)
Payments	(20,033)	(11,276)
Ending balance	$19,704	$12,497

Accrued expenses and other current liabilities consist of the following:

	September 30, 2015	December 31, 2014
Accrued technology license payments	$3,000	$3,000
Accrued professional fees	1,346	422
Accrued restructuring	1,339	—
Accrued litigation costs	415	560
Accrued royalty	1,846	—
Deferred tax liability	3,393	—
Other	7,812	1,566
	$19,151	$5,548

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

7. Stock-Based Compensation and Employee Benefit Plans
Stock-Based Compensation
The Company uses the Black-Scholes valuation model to calculate the fair value of stock options and employee stock purchase rights granted to employees. The Company calculates the fair value of restricted stock units, or RSUs, and restricted stock awards, or RSAs, based on the fair market value of our Class A common stock on the grant date. The weighted-average grant date fair value per share of the RSUs and RSAs granted in the nine months ended September 30, 2015 was $10.14. The weighted-average grant date fair value per share of the RSUs and RSAs granted in the nine months ended September 30, 2014 was $9.04. No stock options were granted during the nine months ended September 30, 2015.
The fair values of stock options and employee stock purchase rights (related to the Company's ESPP) were estimated at their respective grant date using the following assumptions:
Stock Options

	Nine Months Ended September 30,	
	2014	
Weighted-average grant date fair value per share	$4.03	
Risk-free interest rate	1.70	%
Dividend yield	—	%
Expected life (years)	4.56	
Volatility	51.00	%

Employee Stock Purchase Rights

	Nine Months Ended September 30,			
	2015		2014	
Weighted-average grant date fair value per share	$2.25		$2.47	
Risk-free interest rate	0.09	%	0.05	%
Dividend yield	—	%	—	%
Expected life (years)	0.50		0.50	
Volatility	32.65	%	47.75	%

The risk-free interest rate assumption was based on the United States Treasury’s rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The assumed dividend yield was based on the Company’s expectation of not paying dividends in the foreseeable future. The weighted-average expected life of options was calculated using the simplified method as prescribed by guidance provided by the SEC. This decision was based on the lack of historical data due to the Company’s limited number of stock option exercises under the 2010 Equity Incentive Plan. In addition, due to the Company’s limited historical data, the estimated volatility incorporates the historical volatility of comparable companies whose share prices are publicly available. Effective for the nine months ended September 30, 2014, the Company is no longer incorporating the historical volatility of comparable companies in determining estimated volatility.
The Company recognized stock-based compensation in the statements of operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of net revenue	$73	$35	$169	$96
Research and development	3,496	2,574	8,889	7,152
Selling, general and administrative	1,442	1,393	4,466	3,832
	$5,011	$4,002	$13,524	$11,080

23

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

In connection with the acquisition of Entropic, the Company assumed stock options and RSUs originally granted by Entropic. Stock-based compensation expense in the three and nine months ended September 30, 2015 included $0.8 million and $3.2 million, respectively, related to assumed Entropic stock options and RSUs.

In the nine months ended September 30, 2015, the Company granted 1.1 million RSUs with a fair value of $11.2 million related to its annual equity compensation review program, which will be expensed over the next four years. In the nine months ended September 30, 2014, the Company granted 0.7 million RSUs with a fair value of $6.4 million and 0.4 million stock options with a fair value of $1.7 million related to its annual equity compensation review program, which are expensed over the next four years.

Employee Benefit Plans

At September 30, 2015, the Company had stock-based compensation awards outstanding under the following plans: the 2004 Stock Plan, the 2010 Equity Incentive Plan and the 2010 Employee Stock Purchase Plan as well as the following former Entropic plans: the RF Magic 2000 Incentive Stock Plan, the 2001 Stock Option Plan, the 2007 Equity Incentive Plan, the 2007 Non-Employee Director's Plan and the 2012 Inducement Award Plan. All current stock awards are issued under the 2010 Equity Incentive Plan and 2010 Employee Stock Purchase Plan.

2010 Equity Incentive Plan

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

On January 1, 2015, 1.5 million shares of Class A common stock were automatically added to the shares authorized for issuance under the 2010 Equity Incentive Plan pursuant to an “evergreen” provision contained in the 2010 Equity Incentive Plan.

2010 Employee Stock Purchase Plan

The 2010 Employee Stock Purchase Plan, or ESPP, is implemented through a series of offerings of purchase rights to eligible employees. Generally, all regular employees, including executive officers, employed by the Company may participate in the ESPP and may contribute up to 15% of their earnings for the purchase of the Company’s Class A common stock under the ESPP. Unless otherwise determined by the Company’s board of directors, Class A common stock will be purchased for accounts of employees participating in the ESPP at a price per share equal to the lower of (a) 85% of the fair market value of a share of the Company’s Class A common stock on the first date of an offering or (b) 85% of the fair market value of a share of the Company’s Class A common stock on the date of purchase.

On January 1, 2015, 0.5 million shares of Class A common stock were automatically added to the shares authorized for issuance under the ESPP pursuant to an “evergreen” provision contained in the ESPP.

Executive Incentive Bonus Plan

In April 2012, the Company's compensation committee amended its Executive Incentive Bonus Plan to, among other things, permit the settlement of awards under the plan in the form of shares of its Class A common stock. In May 2013, the Company's compensation committee amended its Executive Incentive Bonus Plan to permit the settlement of awards under the plan in any combination of cash or shares of its Class A common stock. For the January 1, 2015 to June 30, 2015, 2014 and 2013 performance period, actual awards under the Executive Incentive Bonus Plan were settled in Class A common stock issued under its 2010 Equity Incentive Plan with the number of shares issuable to plan participants determined based on the closing sales price of the Company's Class A common stock as determined in trading on the New York Stock Exchange on August 20, 2015, May 14, 2015 and May 9, 2014, respectively. Additionally, the Company settled all bonus awards for all other employees for the January 1, 2015 to June 30, 2015, 2014 and 2013 performance period in shares of its Class A common stock. The Company issued 0.3 million shares of its Class A common stock for the January 1, 2015 to June 30, 2015 performance period upon settlement of the bonus awards on August 20, 2015. The Company issued 0.2 million shares of its Class A common stock for the 2014 performance period upon settlement of the bonus awards on May 14, 2015. The Company issued 0.6 million shares of its Class A common stock for the 2013 performance period upon settlement of the bonus awards on May 9, 2014.

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

Common Stock

At September 30, 2015, the Company had 500 million authorized shares of Class A common stock and 500 million authorized shares of Class B common stock. Holders of the Company’s Class A and Class B common stock have identical voting rights, except that holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to ten votes per share with respect to transactions that would result in a change of control of the Company or that relate to the Company’s equity incentive plans. In addition, holders of Class B common stock have the exclusive right to elect two members of the Company’s Board of Directors, each referred to as a Class B Director. The shares of Class B common stock are not publicly traded. Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock and in most instances automatically converts upon sale or other transfer.

8. Income Taxes

In order to determine the quarterly provision for income taxes, the Company used an estimated annual effective tax rate, which is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates. The income tax provision consists primarily of income taxes related to the Company's operations in foreign jurisdictions as well as accruals for tax contingencies. Certain significant or unusual items are separately recognized in the quarter during which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

As the Company does not believe that it is more-likely-than-not that it will realize a benefit from its U.S. net deferred tax assets, including its U.S. net operating losses, the Company continues to provide a full valuation allowance against those assets and therefore does not incur significant U.S. income tax expense or benefit. Additionally, the Company completed the acquisition of Entropic Communications in the second quarter of 2015. As a result of the acquisition, there was a valuation allowance release that resulted in a tax benefit of $1.6 million due to the purchase accounting adjustment for the net deferred tax liability. Furthermore, the Company does not incur expense or benefit in the certain tax free jurisdictions in which it operates.

The Company recorded a provision for income taxes of $0.5 million and a benefit of $0.6 million for the three and nine months ended September 30, 2015, respectively. The Company recorded a provision for income taxes of $0.03 million and $0.5 million for the three and nine months ended September 30, 2014, respectively. The provision (benefit) for income taxes for the three and nine months ended September 30, 2015 and 2014 primarily relates to income taxes in certain foreign jurisdictions.

During the nine months ended September 30, 2015, the Company’s unrecognized tax benefits increased by $1.9 million which includes an amount of $1.5 million related to the acquisition of Entropic. The Company does not anticipate its unrecognized tax benefits will change significantly over the next 12 months. Accrued interest and penalties associated with uncertain tax positions as of September 30, 2015 were $0.05 million and $0.02 million, respectively.

The Federal examination by the Internal Revenue Service for the years 2010 and 2011 was completed during the three months ended March 31, 2014. Any impact from the audit was included in the 2013 financial statements. The Company is not currently under examination in any other jurisdictions.

9. Significant Customer and Geographic Information

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
Percentage of total net revenue								
Arris[1]	30	%	24	%	30	%	29	%
WNC Corporation	11	%	*		*		*	

Cisco	10 %	10 %	13 %	*

* Represents less than 10% of the net revenue for the respective period.
[1] Includes sales to Motorola Home, which was acquired by Arris in April 2013, for all periods presented.

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

Products shipped to international destinations representing greater than 10% of net revenue for each of the periods presented are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Percentage of total net revenue				
China	65 %	68 %	61 %	75 %

The determination of which country a particular sale is allocated to is based on the destination of the product shipment.

Balances greater than 10% of accounts receivable are as follows:

	September 30, 2015	December 31, 2014
Percentage of gross accounts receivable		
WNC Corporation	18 %	*
Pegatron Corporation	11 %	41 %
Sernet Technologies Corporation	14 %	11 %

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

10. Commitments and Contingencies

Lease Commitments and Other Contractual Obligations

At September 30, 2015, future minimum payments under non-cancelable operating leases, other obligations and inventory purchase obligations are as follows:

	Operating Leases	Other Obligations	Inventory Purchase Obligations
2015 (remaining three months)	$1,608	$2,545	$18,286
2016	6,773	9,538	—
2017	6,025	4,687	—
2018	5,121	700	—
2019	4,774	—	—
Thereafter	12,897	—	—
Total minimum payments:	$37,198	$17,470	$18,286

Entropic Communications Merger Litigation

The Delaware Actions

Beginning on February 9, 2015, eleven stockholder class action complaints (captioned Langholz v. Entropic Communications, Inc., et al., C.A. No. 10631-VCP (filed Feb. 9, 2015); Tomblin v. Entropic Communications, Inc., C.A. No. 10632-VCP (filed Feb. 9, 2015); Crill v. Entropic Communications, Inc., et al., C.A. No. 10640-VCP (filed Feb. 11, 2015); Wohl v. Entropic Communications, Inc., et al., C.A. No. 10644-VCP (filed Feb. 11, 2015); Parshall v. Entropic Communications, Inc., et al., C.A. No. 10652-VCP (filed Feb. 12, 2015); Saggar v. Padval, et al., C.A. No. 10661-VCP (filed Feb. 13, 2015); Iyer v. Tewksbury, et al., C.A. No. 10665-VCP (filed Feb. 13, 2015); Respler v. Entropic Communications, Inc., et al., C.A. No. 10669-VCP (filed Feb. 17, 2015); Gal v. Entropic Communications, Inc., et al., C.A. No. 10671-VCP (filed Feb. 17, 2015); Werbowsky v. Padval, et al., C.A. No. 10673-VCP (filed Feb. 18, 2015); and Agosti v. Entropic Communications, Inc., C.A. No. 10676-VCP (filed Feb. 18, 2015)) were filed in the Court of Chancery of the State of Delaware on behalf of a putative class of Entropic Communications, Inc. stockholders. The complaints name Entropic, the board of directors of Entropic, MaxLinear, Excalibur Acquisition Corporation, and Excalibur Subsidiary, LLC as defendants. The complaints generally allege that, in connection with the proposed acquisition of Entropic by MaxLinear, the individual defendants breached their fiduciary duties to

Entropic stockholders by, among other things, purportedly failing to take steps to maximize the value of Entropic to its stockholders and agreeing to allegedly preclusive deal protection devices in the merger agreement. The

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

complaints further allege that Entropic, MaxLinear, and/or the merger subsidiaries aided and abetted the individual defendants in the alleged breaches of their fiduciary duties. The complaints seek, among other things, an order enjoining the defendants from consummating the proposed transaction, an order declaring the merger agreement unlawful and unenforceable, in the event that the proposed transaction is consummated, an order rescinding it and setting it aside or awarding rescissory damages to the class, imposition of a constructive trust, damages, and/or attorneys' fees and costs.

On March 27, 2015, plaintiffs Ankur Saggar, Jon Werbowsky, and Angelo Agosti filed an amended class action complaint. Also on March 27, 2015, plaintiffs Martin Wohl and Jeffrey Park filed an amended class action complaint. On April 1, 2015, plaintiff Mark Respler filed an amended class action complaint.

On April 16, 2015, the Court entered an order consolidating the Delaware actions, captioned In re Entropic Communications, Inc. Consolidated Stockholders Litigation, C.A. No. 10631-VCP (the "Consolidated Action"). The April 16, 2015 order appointed plaintiffs Rama Iyer and Jon Werbowsky as Co-Lead Plaintiffs and designated the amended complaint filed by plaintiffs Ankur Saggar, Jon Werbowsky, and Angelo Agosti as the operative complaint (the "Amended Complaint").

The Amended Complaint names as defendants Entropic, the board of directors of Entropic, the Company, Excalibur Acquisition Corporation, and Excalibur Subsidiary, LLC. The Amended Complaint generally alleges that, in connection with the proposed acquisition of Entropic by the Company, the individual defendants breached their fiduciary duties to Entropic stockholders by, among other things, purportedly failing to maximize the value of Entropic to its stockholders, engaging in a purportedly unfair and conflicted sale process, agreeing to allegedly preclusive deal protection devices in the merger agreement, and allegedly misrepresenting and/or failing to disclose all material information in connection with the proposed transaction. The Amended Complaint further alleges that the Company and the merger subsidiaries aided and abetted the individual defendants in the alleged breaches of their fiduciary duties. The Amended Complaint seeks, among other things: an order declaring the merger agreement unlawful and unenforceable, an order rescinding, to the extent already implemented, the merger agreement, an order enjoining defendants from consummating the proposed transaction, imposition of a constructive trust, and attorneys' and experts' fees and costs.

On April 24, 2015, the parties to the Consolidated Action entered into a memorandum of understanding regarding a proposed settlement of the Delaware actions. The proposed settlement is subject to negotiation of the settlement papers by the parties and is subject to court approval after notice and an opportunity to object is provided to the proposed settlement class. There can be no assurance that the parties will reach agreement regarding the final terms of the settlement agreement or that the Court of Chancery will approve the settlement.

Based on the above, the Company has not recorded an accrual for loss contingencies associated with the Delaware actions; determined that an unfavorable outcome is probable or reasonably possible; or determined that the amount or range of any possible loss is reasonably estimable.

CrestaTech Litigation

On January 21, 2014, CrestaTech Technology Corporation, or CrestaTech, filed a complaint for patent infringement against us in the United States District Court of Delaware (the "District Court Litigation"). In its complaint, CrestaTech alleges that we infringe U.S. Patent Nos. 7,075,585 (the "'585 Patent") and 7,265,792. In addition to asking for compensatory damages, CrestaTech alleges willful infringement and seeks a permanent injunction. CrestaTech also names Sharp Corporation, Sharp Electronics Corp. and VIZIO, Inc. as defendants based upon their alleged use of our television tuners. On January 28, 2014, CrestaTech filed a complaint with the U.S. International Trade Commission, or ITC, again naming us, Sharp, Sharp Electronics, and VIZIO ("the "ITC Investigation"). On May 16, 2014 the ITC granted CrestaTech's motion to file an amended complaint adding six OEM Respondents, namely, SIO International, Inc., Hon Hai Precision Industry Co., Ltd., Wistron Corp., Wistron Infocomm Technology (America) Corp., Top Victory Investments Ltd. and TPV International (USA), Inc. (collectively, with us, Sharp and VIZIO, the "Company Respondents"). CrestaTech's ITC complaint alleges a violation of 19 U.S.C. § 1337 through the importation into the United States, the sale for importation, or the sale within the United States after importation of the Company's accused products that CrestaTech alleges infringe the same two patents asserted in the Delaware action. Through its ITC complaint, CrestaTech seeks an exclusion order preventing entry into the United States of certain of our television tuners and televisions containing such tuners from Sharp, Sharp Electronics, and VIZIO. CrestaTech also seeks a cease and desist order prohibiting the Company Respondents from engaging in the importation into, sale for importation into, the sale after importation of, or otherwise transferring within the United States certain of the Company's television tuners or televisions containing such tuners.

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

On December 1-5, 2014, the ITC held a trial in the ITC Investigation. On February 27, 2015, the Administrative Law Judge issued a written Initial Determination (“ID”), ruling that the Company Respondents do not violate Section 1337 in connection with CrestaTech’s asserted patents because CrestaTech failed to satisfy the economic prong of the domestic industry requirement pursuant to Section 1337(a)(2). In addition, the ID stated that certain of the our television tuners and televisions incorporating those tuners manufactured and sold by certain customers infringe three claims of the ‘585 Patent, and these three claims were not determined to be invalid. On April 30, 2015, the ITC issued a notice indicating that it intended to review portions of the ID finding no violation of Section 1337, including the ID’s findings of infringement with respect to, and validity of, the ‘585 Patent, and the ID’s finding that CrestaTech failed to establish the existence of a domestic industry within the meaning of Section 1337.
The Commission requested additional briefing from the parties on certain issues under review by the Commission. The ITC has now issued its opinion, which terminates its investigation. The opinion affirmed the findings of the administrative law judge that no violation of Section 1337 had occurred because CrestaTech had failed to establish the economic prong of the domestic industry requirement. The ITC also affirmed the administrative law judge's finding of infringement with respect to the three claims of the '585 Patent that were not held to be invalid. CrestaTech may now appeal the decision of the ITC to the United States Court of Appeals for the Federal Circuit. The District Court Litigation remains stayed pending resolution of any appeal to the ITC. In addition, we have filed four petitions for inter partes review ("IPR") by the US Patent Office of the two CrestaTech patents asserted against us. We cannot predict the outcome of any appeal by CrestaTech, the District Court Litigation, or the IPRs.
In addition, we have filed four petitions for inter partes review (“IPR”) by the U.S. Patent Office of the two CrestaTech patents asserted against us. The Patent Trial and Appeal Board did not institute two of these IPRs as being redundant to IPRs filed by another party that are already underway for the same CrestaTech patent. The remaining two petitions were instituted or instituted-in-part and, together with the IPRs filed by third parties, there are currently six pending IPR proceedings involving the two CrestaTech patents asserted against us. The two specific claims mentioned above are included in at least one of the review proceedings instituted and currently pending against CrestaTech.
In view of the final determination of no violation in the ITC Investigation and the institution of IPR proceedings, the Company has not recorded an accrual for loss contingencies associated with the litigation; determined that an unfavorable outcome is probable or reasonably possible; or determined that the amount or range of any possible loss is reasonably estimable.

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

Forward-Looking Statements

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

Overview

We are a provider of integrated, radio-frequency and mixed-signal integrated circuits for broadband communications and data center, metro, and long-haul transport network applications. Our high performance radio-frequency, or RF, receiver products capture and process digital and analog broadband signals to be decoded for various applications. These products include both RF receivers and RF receiver systems-on-chip (SoCs), which incorporate our highly integrated radio system architecture and the functionality necessary to receive and demodulate broadband signals, and physical medium devices that provide a constant current source, current-to-voltage regulation, and data alignment and retiming functionality in optical interconnect applications. Through our acquisition of Entropic Communications, Inc., or Entropic, in April of 2015, we provide semiconductor solutions for the connected home, ranging from MoCA® (Multimedia over Coax Alliance) solutions that transform how traditional HDTV broadcast and Internet Protocol- (IP) based streaming video content is seamlessly, reliably, and securely delivered, processed, and distributed into and throughout the home, to digital set top box (STB) components and system solutions for the global satellite, terrestrial, cable and IP television (IPTV) markets. Our products enable the distribution and display of broadband video and data content in a wide range of electronic devices, including Pay-TV operator set top boxes and voice and data gateways, hybrid analog and digital televisions, Direct Broadcast Satellite outdoor units, and optical modules for data center, metro, and long-haul transport network applications.

Our net revenue has grown from approximately $0.6 million in fiscal 2006 to $133.1 million in fiscal 2014. In the nine months ended September 30, 2015 and 2014, respectively, our net revenue was derived primarily from sales of RF receivers and RF receiver systems-on-chip, and MoCA connectivity solutions into operator voice and data modems and gateways and global analog and digital RF receiver products for analog and digital television applications. These analog and digital television applications include Direct Broadcast Satellite outdoor unit (DBS ODU) solutions which consist of our and translation switch (BTS) and channel stacking switch (CSS) products which simplify the installation required to support simultaneous reception of multiple channels from multiple satellites over a single cable. 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 Cable infrastructure market, and manufacturers of optical module and telecommunications equipment. Products shipped to Asia accounted for 90% of net revenue in the three and nine months ended September 30, 2015, respectively, and 90% and 94% of net revenue in the three and nine months ended September 30, 2014, respectively. A significant but declining portion of these sales in Asia is through distributors. 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 nine months ended September 30, 2015 and 2014 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 nine months ended September 30, 2015 and 2014 related principally to sales to Asian ODMs and contract manufacturers delivering products into European and North American markets. To date, most of our sales have been denominated in United States dollars.

A significant portion of our net revenue has historically been generated by a limited number of customers. In the three months ended September 30, 2015, two of our customers accounted for 41% of our net revenue, and our ten largest customers collectively accounted for 77% of our net revenue. In the nine months ended September 30, 2015, two of our customers accounted for 42% of our net revenue, and our ten largest customers collectively accounted for 76% of our net revenue. In the three months ended September 30, 2014, one of our customers accounted for 25% of our net revenue, and our ten largest customers collectively accounted for 67% of our net revenue. In the nine months ended September 30, 2014, one of our customers accounted for 31% of our net revenue, and our ten largest customers collectively accounted for 69% of our net revenue. For certain customers, we sell multiple products into disparate end user applications such as cable modems and cable set-top boxes.

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 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 satellite operator gateway and DBS ODU sectors, a design-in can have a product life cycle of 24 months 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 financial statements which are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We continually evaluate our estimates and judgments, the most critical of which are those related to revenue recognition, business combinations, allowance for doubtful accounts, inventory valuation, production masks, income taxes, stock-based compensation, goodwill and intangible assets and impairment of goodwill and long-lived assets. 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.

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.

There were no significant changes, other than the addition of business combinations, during the nine months ended September 30, 2015 to the items that we disclosed as our critical accounting policies and estimates in Note 1 to our consolidated financial statements for the year ended December 31, 2014 contained in the Annual Report on Form 10-K filed with the SEC on February 23, 2015, as amended by Amendment No. 1 on Form 10-K/A filed with the SEC on March 12, 2015.

Results of Operations

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