

MAXLINEAR INC  
Form 10-Q  
November 07, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2016

OR

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

For the Transition Period From to

Commission file number: 001-34666

MaxLinear, Inc.

(Exact name of Registrant as specified in its charter)

Delaware 14-1896129  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

5966 La Place Court, Suite 100 92008  
Carlsbad, California  
(Address of principal executive offices) (Zip Code)  
(760) 692-0711  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)  
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of November 2, 2016, the registrant had 57,866,132 shares of Class A common stock, par value \$0.0001, and 6,666,777 shares of Class B common stock, par value \$0.0001, outstanding.

Table of Contents

MAXLINEAR, INC.  
QUARTERLY REPORT ON FORM 10-Q  
TABLE OF CONTENTS

	Page
Part I <u>FINANCIAL INFORMATION</u>	<u>3</u>
Item 1. <u>Financial Statements (unaudited)</u>	<u>4</u>
<u>Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	<u>4</u>
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2016 and 2015</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>41</u>
Item 4. <u>Controls and Procedures</u>	<u>42</u>
Part II <u>OTHER INFORMATION</u>	<u>43</u>
Item 1. <u>Legal Proceedings</u>	<u>43</u>
Item 1A. <u>Risk Factors</u>	<u>45</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>69</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>69</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>69</u>
Item 5. <u>Other Information</u>	<u>69</u>
Item 6. <u>Exhibits</u>	<u>70</u>

Table of Contents

PART I — FINANCIAL INFORMATION

3

---

Table of Contents

## ITEM 1. FINANCIAL STATEMENTS

## MAXLINEAR, INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited; in thousands, except par value amounts)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 56,076	\$ 67,956
Short-term investments, available-for-sale	42,146	43,300
Accounts receivable, net	49,672	42,399
Inventory	32,119	32,443
Prepaid expenses and other current assets	6,831	3,904
Total current assets	186,844	190,002
Property and equipment, net	21,950	21,858
Long-term investments, available-for-sale	12,020	19,242
Intangible assets, net	109,885	51,355
Goodwill	75,794	49,779
Other long-term assets	1,883	2,269
Total assets	\$ 408,376	\$ 334,505
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 7,061	\$ 6,389
Deferred revenue and deferred profit	5,294	4,066
Accrued price protection liability	17,112	20,026
Accrued expenses and other current liabilities	16,682	15,368
Accrued compensation	8,342	9,983
Total current liabilities	54,491	55,832
Deferred rent	9,470	11,427
Other long-term liabilities	5,712	4,322
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, 57,860 and 55,737 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	6	5
Class B common stock, \$0.0001 par value; 500,000 shares authorized, 6,665 shares issued and outstanding at September 30, 2016 and December 31, 2015	1	1
Additional paid-in capital	407,928	384,961
Accumulated other comprehensive loss	(952	) (822 )
Accumulated deficit	(68,280	) (121,221 )
Total stockholders' equity	338,703	262,924
Total liabilities and stockholders' equity	\$ 408,376	\$ 334,505

See accompanying notes.

4

---

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenue	\$96,324	\$95,191	\$300,696	\$201,411
Cost of net revenue	40,820	44,141	121,109	101,748
Gross profit	55,504	51,050	179,587	99,663
Operating expenses:				
Research and development	25,921	23,491	73,710	62,765
Selling, general and administrative	17,619	25,457	47,734	60,021
IPR&D impairment losses	1,300	—	1,300	—
Restructuring charges	—	425	2,106	11,814
Total operating expenses	44,840	49,373	124,850	134,600
Income (loss) from operations	10,664	1,677	54,737	(34,937 )
Interest income	89	47	426	168
Other income (expense), net	10	407	(64 )	351
Income (loss) before income taxes	10,763	2,131	55,099	(34,418 )
Provision for income taxes (income tax benefit)	1,084	549	2,155	(631 )
Net income (loss)	\$9,679	\$1,582	\$52,944	\$(33,787 )
Net income (loss) per share:				
Basic	\$0.15	\$0.03	\$0.83	\$(0.67 )
Diluted	\$0.14	\$0.03	\$0.79	\$(0.67 )
Shares used to compute net income (loss) per share:				
Basic	64,241	60,644	63,454	50,528
Diluted	67,832	63,209	67,354	50,528

See accompanying notes.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$9,679	\$1,582	\$52,944	\$(33,787)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investments, net of tax of \$0 for the three and nine months ended September 30, 2016 and 2015	(8 )	66	166	99
Less: Reclassifications to realized gain on sales and maturities of investments, net of tax of \$0 for the three and nine months ended September 30, 2016 and 2015	1	—	(49 )	—
Unrealized gain (loss) on investments, net of tax	(7 )	66	117	99
Foreign currency translation adjustments, net of tax benefit of \$41 and \$68 for the three and nine months ended September 30, 2016 and \$0 for the three and nine months ended September 30, 2015 <sup>(1)</sup>	8	(755 )	(247 )	(675 )
Foreign currency translation adjustments, net of tax	8	(755 )	(247 )	(675 )
Other comprehensive income (loss)	1	(689 )	(130 )	(576 )
Total comprehensive income (loss)	\$9,680	\$893	\$52,814	\$(34,363)

<sup>(1)</sup> Tax amount recognized in Other Long-Term Liabilities of the Consolidated Balance Sheets as part of long-term deferred tax liabilities.

See accompanying notes.

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
Operating Activities		
Net income (loss)	\$52,944	\$(33,787)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Amortization and depreciation	18,743	31,162
Impairment of IPR&D assets	1,300	—
Provision for losses on accounts receivable	87	—
Provision for inventory reserves	9	—
Amortization of investment premiums, net	95	261
Amortization of inventory step-up	2,989	14,244
Stock-based compensation	16,475	15,052
Deferred income taxes	215	(1,709 )
(Gain) loss on disposal of property and equipment	48	(39 )
(Gain) loss on sale of available-for-sale securities	(50 )	) 21
Change in fair value of contingent consideration	209	(123 )
Impairment of long-lived assets	—	153
Impairment of lease	—	6,161
Loss on foreign currency	66	—
Excess tax benefits on stock-based awards	(6,042 )	)—
Changes in operating assets and liabilities:		
Accounts receivable	(7,360 )	) 5,971
Inventory	6,955	(10,069 )
Prepaid expenses and other assets	(365 )	) 700
Accounts payable, accrued expenses and other current liabilities	2,497	(8,822 )
Accrued compensation	3,357	4,845
Deferred revenue and deferred profit	1,228	526
Accrued price protection liability	(2,914 )	) 6,200
Other long-term liabilities	(772 )	) (264 )
Net cash provided by operating activities	89,714	30,483
Investing Activities		
Purchases of property and equipment	(6,828 )	) (1,480 )
Purchases of intangible assets	(390 )	) (100 )
Cash used in acquisition, net of cash acquired	(101,000)	(3,615 )
Purchases of available-for-sale securities	(80,263 )	) (45,680 )
Maturities of available-for-sale securities	88,711	57,508
Net cash provided by (used in) investing activities	(99,770 )	) 6,633
Financing Activities		
Repurchases of common stock	(3 )	) (101 )
Net proceeds from issuance of common stock	4,450	6,346
Minimum tax withholding paid on behalf of employees for restricted stock units	(6,184 )	) (4,528 )
Equity issuance costs	—	(705 )
Net cash provided by (used in) financing activities	(1,737 )	) 1,012
Effect of exchange rate changes on cash and cash equivalents	(87 )	) (675 )
Increase (decrease) in cash and cash equivalents	(11,880 )	) 37,453



Edgar Filing: MAXLINEAR INC - Form 10-Q

Cash and cash equivalents at beginning of period	67,956	20,696
Cash and cash equivalents at end of period	\$56,076	\$58,149
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$1,483	\$—
Supplemental disclosures of non-cash activities:		
Issuance of restricted stock units to Physpeed continuing employees	\$578	\$—
Issuance of accrued share-based bonus plan	\$7,649	\$5,459
See accompanying notes.		

7

---

MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Summary of Significant Accounting Policies

Description of Business

MaxLinear, Inc. was incorporated in Delaware in September 2003. MaxLinear, Inc., together with its wholly owned subsidiaries, collectively referred to as MaxLinear, or the Company, is a provider of radio-frequency and mixed-signal integrated circuits for cable and satellite broadband communications and the connected home, and wired and wireless infrastructure markets. MaxLinear's 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 Pay-TV operator set-top boxes, DOCSIS data and voice gateways, hybrid analog and digital televisions and consumer terrestrial set-top boxes, Direct Broadcast Satellite outdoor units, optical modules for data center, metro, and long-haul transport network applications, and RF transceivers and modem solutions for wireless carrier infrastructure applications. The Company is a fabless semiconductor company focusing its resources on the design, sale and marketing of its products.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of MaxLinear, Inc. and its wholly owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. All intercompany transactions and investments have been eliminated in consolidation. In the opinion of management, the Company's unaudited consolidated interim financial statements contain adjustments, including normal recurring accruals necessary to present fairly the Company's consolidated financial position, results of operations, comprehensive income (loss) and cash flows.

The consolidated balance sheet as of December 31, 2015 was derived from the Company's audited consolidated financial statements at that date. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto for the year ended December 31, 2015 included in the Company's Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission, or the SEC, on February 17, 2016, as amended by Amendment No. 1 filed with the SEC on April 28, 2016, or the Annual Report. Certain prior period amounts have been reclassified to conform with the current period presentation. Interim results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2016.

Use of Estimates

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

Summary of Significant Accounting Policies

Refer to the Company's Annual Report for a summary of significant accounting policies. There have been no material changes to our significant accounting policies during the nine months ended September 30, 2016, other than the adoption of ASU No. 2016-09, Improvements to Share-Based Compensation during the second quarter of 2016, as discussed under Recent Accounting Pronouncements below.

MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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. Adoption of the amendments in this guidance is expected to accelerate the timing of the Company's revenue recognition on products sold via distributors which will change from the sell-through method to the sell-in method. The Company is currently evaluating the impact of adopting this new accounting standard on its consolidated financial position and results of operations; however, the change could have a significant impact on the Company's revenues for the year ending December 31, 2018 and comparative periods presented, depending on the volume and amount of distributor transactions for such periods.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which requires inventory to be subsequently measured using the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in this Update are effective for the Company beginning in the first quarter of fiscal 2017 and should be applied prospectively. The adoption of the amendments in this Update are not expected to have a material impact on the Company's consolidated financial position and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this Update require a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term for all leases with terms greater than twelve months. For leases less than twelve months, an entity is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The amendments in this Update are effective for the Company for fiscal years beginning with fiscal year 2019, including interim periods within those years, with early adoption permitted. The Company is currently in the process of evaluating the impact of adoption of the amendments in this Update on the Company's consolidated financial position and results of operations; however, adoption of the amendments in this Update are expected to be material for most entities, including the Company, that have material leases greater than twelve months.

In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) to clarify the revenue recognition implementation guidance on principal versus agent considerations. The amendments in this Update clarify that when another party is involved in providing goods or services to a customer, an entity that is the principal has obtained control of a good or service before it is transferred to a customer, and provides indicators to assist an entity in determining whether it controls a specified good or service prior to the transfer to the customer. An entity that is the principal recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer, whereas an agent recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. The amendments in this Update are effective for the Company beginning in the first quarter of fiscal year 2018, concurrent with the new revenue recognition standard. The Company is currently evaluating the impact of adopting the new revenue recognition accounting standard, including this Update, on its consolidated financial position and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Share-Based Compensation to simplify certain aspects of accounting for share-based payment transactions associated with income taxes, classification as equity or liabilities, and classification on the statement of cash flows. The amendments in this Update are effective for the Company for fiscal years beginning with fiscal year 2017, including interim periods within those years, with early adoption permitted. Early adoption, if elected, must be completed for all of the amendments in the same period. The new guidance requires, among other things, excess tax benefits and tax deficiencies to be recorded in the income statement in the provision for income taxes when awards vest or are settled. Also, because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share is amended to exclude the amount of excess tax benefits that would be recognized in additional paid-in capital. The Company adopted ASU No. 2016-09 during the quarter ended June 30, 2016, as previously described in the Company's Form 10-Q for the period ended June 30, 2016 filed with the Securities Exchange Commission on August 8, 2016. For the three and nine months ended September 30, 2016 the impact on the Company's results of operations was to reduce the provision for income taxes and increase net income by \$0.9

MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

million and \$6.0 million, respectively, and increase basic net income per share by \$0.01 and \$0.09 for the three and nine months ended September 30, 2016, respectively, and increase diluted net income per share by \$0.01 and \$0.08 for the three and nine months ended September 30, 2016, respectively. The increase to diluted net income per share includes the effect of the reduction of the tax provision and an increase in the number of incremental shares used in computing diluted EPS by 833,000 shares and 856,000 shares for the three and nine months ended September 30, 2016, respectively (Note 2).

There was no cumulative effect on retained earnings in the consolidated balance sheet since the Company has a full valuation allowance against U.S. deferred tax assets. The Company elected to continue to estimate forfeitures of share-based awards resulting in no impact to stock-based compensation expense, and is also continuing to classify cash paid by the Company when directly withholding shares for tax withholding purposes in cash flows from financing activities.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments to eliminate the diversity in practice regarding the presentation and classification of certain cash receipts and cash payments, including, among other things, contingent consideration payments made following a business combination and proceeds from the settlement of insurance claims in the statement of cash flows. Cash payments not made soon after the acquisition date up to the amount of the contingent consideration liability recognized at the acquisition date should be classified as financing activities, with any excess payments classified as operating activities, whereas cash payments made soon after the acquisition date to settle the contingent consideration should be classified as investing activities. Cash proceeds received from settlement of insurance claims should be classified on the basis of the nature of the related losses. The amendments in this Update are effective for fiscal years beginning with fiscal year 2017, including interim periods within those years, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated statement of cash flows.

## 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.

As a result of the Company's adoption of ASU No. 2016-09 in the second quarter 2016, excess tax benefits and tax deficiencies are no longer recognized in additional paid-in capital. As a result, when computing diluted EPS using the treasury stock method, fewer hypothetical shares can be repurchased resulting in a greater number of incremental shares being issued upon the exercise of share-based payment awards. The impact of adoption of ASU No. 2016-09 on diluted income (loss) per share (Note 1) is to increase net income due to the inclusion of excess tax benefits in the provision for income taxes (income tax benefit) by \$0.9 million and \$6.0 million for the three and nine months ended September 30, 2016, respectively, and to increase the number of incremental shares used in computing diluted EPS by 833,000 shares and 856,000 shares for the three and nine months ended September 30, 2016, respectively, or an increase to diluted net income per share of \$0.01 per share and \$0.08 per share for the three and nine months ended September 30, 2016, respectively.

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.

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Numerator:				
Net income (loss)	\$9,679	\$1,582	\$52,944	\$(33,787)
Denominator:				
Weighted average common shares outstanding—basic	64,241	60,644	63,454	50,528
Dilutive common stock equivalents	3,591	2,565	3,900	—
Weighted average common shares outstanding—diluted	67,832	63,209	67,354	50,528
Net income (loss) per share:				
Basic	\$0.15	\$0.03	\$0.83	\$(0.67)
Diluted	\$0.14	\$0.03	\$0.79	\$(0.67)

The Company excluded 1.5 million and 1.0 million common stock equivalents for the three and nine months ended September 30, 2016, respectively, and 1.0 million common stock equivalents for the three months ended September 30, 2015, resulting from outstanding equity awards for the calculation of diluted net income per share due to their anti-dilutive nature. For the nine months ended September 30, 2015, the Company incurred a net loss and accordingly excluded all potentially dilutive securities from diluted net loss per share as the impact was anti-dilutive.

### 3. Business Combination

#### Acquisition of Certain Assets and Assumption of Certain Liabilities of the Wireless Infrastructure Backhaul Business of Broadcom Corporation

On July 1, 2016, the Company consummated the transactions contemplated by an asset purchase agreement entered into with Broadcom Corporation. The Company paid cash consideration of \$80.0 million for the purchase of certain assets of Broadcom's wireless infrastructure backhaul business, and the assumption of certain liabilities. The assets acquired include, among other things, digital baseband, radio frequency, or RF, and analog/mixed signal patents and other intellectual property, in-production and next-generation digital baseband and RF transceiver integrated circuit and reference platform designs, a workforce-in-place, and other intangible assets, as well as tangible assets that include but are not limited to production masks and other production related assets, inventory, and other property and equipment. The liabilities assumed include, among other things, product warranty obligations, liabilities related to technologies acquired, and a payable to Broadcom as reimbursement of costs associated with the termination of those employees of the wireless infrastructure backhaul business who were not hired by MaxLinear upon the closing of the acquisition. The acquired assets and assumed liabilities, together with the rehired employees, represent a business as defined in ASC 805, Business Combinations. The Company is currently in the process of integrating the acquired assets and rehired employees into the Company's existing business. The asset purchase agreement also contains customary representations, warranties and covenants, including non-competition, non-solicitation, and indemnification provisions.

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following is a preliminary allocation of purchase price as of the July 1, 2016 closing date based upon an estimate of the fair value of the assets acquired and the liabilities assumed by the Company in the acquisition (in thousands):

Description	Amount (in thousands)
Fair value of consideration transferred:	
Cash	\$ 80,000
Preliminary purchase price allocation:	
Inventory	\$ 8,715
Other current assets	2,181
Property and equipment, net	1,616
Identifiable intangible assets	56,300
Accrued expenses and other current liabilities	(5,690 )
Accrued compensation	(2,202 )
Identifiable net assets acquired	60,920
Goodwill	19,080
Total purchase price	\$ 80,000

The estimated fair value of assets acquired and liabilities assumed performed for the purposes of these unaudited consolidated financial statements was primarily limited to the preliminary identification and valuation of intangible assets and inventory by independent valuation specialists. Estimates of fair value require management to make significant estimates and assumptions that are preliminary and subject to change upon finalization of the valuation analysis. Although final determination may result in different asset and liability fair values, it is not expected that such differences will be material to understanding the impact of the transaction on the financial results of MaxLinear. The goodwill recognized is attributable primarily to the acquired workforce, expected synergies, and other benefits that MaxLinear believes will result from integrating the operations of the wireless infrastructure backhaul business with the operations of MaxLinear.

The Company used cash and cash equivalents on hand of \$80.0 million to fund the acquisition.

Acquisition of Certain Assets and Assumption of Certain Liabilities of the Wireless Infrastructure Access Business of Microsemi Storage Solutions, Inc. (formerly known as PMC-Sierra, Inc.)

On April 28, 2016, the Company entered into an asset purchase agreement with Microsemi Storage Solutions, Inc., formerly known as PMC-Sierra, Inc., or Microsemi, and consummated the transactions contemplated by the asset purchase agreement. The Company paid cash consideration of \$21.0 million for the purchase of certain wireless access assets of Microsemi's wireless infrastructure access business, and assumed certain liabilities. The assets acquired include, among other things, radio frequency and analog/mixed signal patents and other intellectual property, in-production and next-generation RF transceiver designs, a workforce-in-place, and other intangible assets, as well as tangible assets that include but are not limited to production masks and other production related assets, inventory, and other property, plant, and equipment. The liabilities assumed include, product warranty obligations, accrued vacation and severance obligations for employees of the wireless infrastructure access business that were hired by the Company upon close of the acquisition. The acquired assets and assumed liabilities, together with the rehired employees, represent a business as defined in ASC 805, Business Combinations. The Company has integrated the acquired assets and rehired employees into the Company's existing business. The asset purchase agreement also contains customary representations, warranties and covenants, including non-competition, non-solicitation, and indemnification provisions. In connection with the acquisition, the Company entered into a transition services agreement with Microsemi for the purpose of Microsemi providing interim operations and general and administrative support to the Company.





## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following allocation of purchase price as of the April 28, 2016 closing date was based upon an estimate of the fair value of the assets acquired and the liabilities assumed by the Company in the acquisition (in thousands):

Description	Amount (in thousands)
-------------	-----------------------------

Fair value of consideration transferred:

Cash	\$ 21,000
------	-----------

Purchase price allocation:

Inventory	\$ 912
Property and equipment	21
Identifiable intangible assets	13,600
Warranty obligations	(12 )
Accrued expenses	(456 )
Identifiable net assets acquired	14,065
Goodwill	6,935
Total purchase price	\$ 21,000

The fair value of assets acquired and liabilities assumed performed for the purposes of these unaudited consolidated financial statements was primarily limited to the identification and valuation of intangible assets and inventory by independent valuation specialists. The valuation analysis performed by independent valuation specialists was finalized during the period ended September 30, 2016. The goodwill recognized is attributable primarily to the acquired workforce, expected synergies, and other benefits that MaxLinear believes will result from integrating the operations of the wireless infrastructure access business with the operations of MaxLinear.

The Company used cash and cash equivalents on hand of \$21.0 million to fund the acquisition.

The total goodwill recorded in connection with the acquisitions of the wireless infrastructure access and backhaul businesses was \$6.9 million and \$19.1 million, respectively. The Company does not expect to deduct any of the acquired goodwill for tax purposes.

The following table presents unaudited pro forma combined financial information for each of the periods presented, as if the acquisitions had occurred at the beginning of fiscal year 2015:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(in thousands)			
Net revenue – proforma combined	\$96,324	\$104,326	\$311,709	\$227,428
Net income (loss) – proforma combined	\$11,806	\$(4,793 )	\$42,423	\$(70,311 )

The following adjustments were included in the unaudited pro forma combined net revenues:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(in thousands)			
Net revenue	\$96,324	\$95,191	\$300,696	\$201,411
Add: Net revenue – acquired businesses—		9,135	11,013	26,017

Net revenues – proforma combined      \$96,324 \$104,326 \$311,709 \$227,428

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following adjustments were included in the unaudited pro forma combined net income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income (loss)	\$9,679	\$1,582	\$52,944	\$(33,787)
Add: Results of operations – acquired businesses	—	(3,452 )	(8,822 )	(16,291 )
Less: Proforma adjustments				
Depreciation of property and equipment	—	(221 )	(397 )	(597 )
Amortization of intangible assets	250	(2,552 )	(3,993 )	(10,125 )
Amortization of inventory step-up	—	—	—	(5,641 )
Impairment of intangible assets	1,300	(1,300 )	1,300	(1,300 )
Acquisition and integration expenses	569	—	2,010	—
Income taxes	8	1,150	(619 )	(2,570 )
Net income (loss) – proforma combined	\$11,806	\$(4,793)	\$42,423	\$(70,311)
Net income (loss) per share – proforma combined:				
Basic	\$0.18	\$(0.08 )	\$0.67	\$(1.39 )
Diluted	\$0.17	\$(0.08 )	\$0.63	\$(1.39 )
Shares used to compute net income (loss) per share – proforma combined:				
Basic	64,241	60,644	63,454	50,528
Diluted	67,832	60,644	67,354	50,528

The pro forma combined financial information for the nine months ended September 30, 2015 includes aggregate non-recurring adjustments of \$9.3 million consisting of amortization of inventory step-up and intangible assets of \$5.6 million and \$2.4 million, respectively, for which the related assets have useful lives of less than one year, and impairment of intangible assets of \$1.3 million. The pro forma combined financial information is presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations of the consolidated business had the acquisitions actually occurred at the beginning of fiscal year 2015 or of the results of future operations of the consolidated 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 acquisitions in the Company's unaudited consolidated statements of operations.

For the three months ended September 30, 2016, \$6.2 million of revenue and \$4.6 million of gross profit, excluding \$3.6 million of amortization of acquired intangible assets and the inventory fair-value step-up of the wireless infrastructure access business and wireless infrastructure backhaul business since the acquisition date are included in the Company's consolidated statements of operations.

For the nine months ended September 30, 2016, \$7.0 million of revenue and \$5.0 million of gross profit, excluding \$4.2 million of amortization of acquired intangible assets and the inventory fair-value step-up of the wireless infrastructure access business and wireless infrastructure backhaul business since the acquisition date are included in the Company's consolidated statements of operations.

Acquisition and integration-related costs of \$0.6 million and \$2.0 million related to the acquisitions of the wireless infrastructure access business and wireless infrastructure backhaul business were included in selling, general, and administrative expenses in the Company's statement of operations for the three and nine months ended September 30,

2016.

14

---

MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Acquisition of Entropic Communications, Inc.

On April 30, 2015, the Company completed its acquisition of Entropic Communications, Inc., or Entropic, for aggregate consideration of \$289.4 million, which was 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.

Refer to Note 4 for disclosures following this acquisition for the three and nine months ended September 30, 2016 and 2015.

Acquisition of Physpeed, Co., Ltd.

On October 31, 2014, the Company acquired 100% of the outstanding common shares of Physpeed Co., Ltd., or 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. Consideration payable of \$1.1 million to the former shareholders of Physpeed was placed into escrow pursuant to the terms of the definitive merger agreement.

The following disclosures regarding this acquisition are for the three and nine months ended September 30, 2016 and 2015.

Compensation Arrangements

In connection with the acquisition of Physpeed, the Company agreed to pay additional consideration in future periods. 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. Quarterly payments of \$0.2 million began on January 31, 2015 and ended on October 31, 2016. Certain employees of Physpeed will be paid a total of \$0.1 million of which \$0.07 million was paid in 2015 and \$0.05 million is being paid in 2016. These payments are accounted for as transactions separate from the business combination as the payments are contingent upon continued employment and are being recorded as post-combination compensation expense in the Company's financial statements during the service period.

Earn-Out

The definitive merger agreement also provides for 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. The contingent earn-out consideration had an estimated fair value of \$0.3 million at the date of acquisition. The 2015 earn-out amount is determined by multiplying \$0.375 million by a 2015 revenue percentage that is defined in the definitive merger agreement. The 2016 earn-out amount is determined by multiplying \$0.375 million by a 2016 revenue percentage that is defined in the definitive merger agreement. Subsequent changes to the fair value are recorded through earnings. The fair value of the earn-out was \$0.4 million and \$0.4 million at September 30, 2016 and December 31, 2015, respectively. During the nine months ended September 30, 2016, the Company paid \$0.2 million for the 2015 earn-out (Note 6).

Restricted Stock Units

The Company agreed to 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. Qualifying revenues are the net revenues recognized directly attributable to sales of Physpeed products or the Company's provision of non-recurring engineering services exclusively with respect to the Physpeed products.

The Company recorded compensation expense for the 2015 RSUs over a 14 month service period from October 31, 2014 through December 31, 2015. The Company records compensation expense for the 2016 RSUs over a 26-month service period, which started from October 31, 2014 and runs through December 31, 2016. The Company has recorded an accrual for the stock-based compensation expense for the 2015 and 2016 RSUs of \$1.4 million and \$1.9 million at September 30, 2016 and December 31, 2015, respectively. The Company issued the 2015 RSUs in February 2016 and no related accrual for the 2015 revenue period was outstanding at September 30, 2016.



## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 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 has terminated the employment of 87 Entropic employees since the acquisition closing date. The Company did not incur any associated employee separation charges in the three and nine months ended September 30, 2016, as such terminations did not occur during such periods. The Company recognized non-recurring employee separation charges of approximately \$5.7 million in the nine months ended September 30, 2015 related to these terminations. During the three months ended September 30, 2015, the Company recorded a \$0.1 million reduction in employee separation charges.

Additionally, in connection with the restructuring plan, the Company ceased use of the former Entropic headquarters in 2015. The Company recognized lease charges of \$0 and \$2.0 million in the three and nine months ended September 30, 2016, respectively, and \$0.6 million and \$6.2 million in the three and nine months ended September 30, 2015, respectively, based on the adjustment to the net present value of the remaining lease obligation on the cease of use date as well as the execution of the final sublease. The Company believes all restructuring charges related to the Entropic acquisition have been incurred as of September 30, 2016.

The following table presents the activity related to the plan, which is included in restructuring charges in the Consolidated Statements of Operations:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	2015
	(in thousands)		
Employee separation expenses	\$—	\$—	\$5,653
Lease related charges <sup>(1)</sup>	—568	1,976	6,161
Other	—	130	—
	\$—425	\$2,106	\$11,814

The lease related charges for the nine months ended September 30, 2016, include \$0.4 million in offsets to (1) restructuring charges related to an Entropic lease that was restructured prior to the completion of the acquisition of Entropic. The Company recorded a charge to the lease restructuring due to changes in market conditions. In the three months ended September 30, 2016, no offsets to restructuring charges related to Entropic leases are included. The following table presents a roll-forward of the Company's restructuring liability as of September 30, 2016, which is included in accrued expenses and other current liabilities in the Consolidated Balance Sheets:

	Employee Separation Expenses (in thousands)	Lease Related Charges	Other	Total
Liability as of December 31, 2015	\$75	\$2,030	\$1,311	\$3,416
Restructuring charges <sup>(1)</sup>	—	1,976	130	2,106
Cash payments	(9 )	(3,340 )	(1,385 )	(4,734 )
Non-cash charges	(66 )	202	(20 )	116
Liability as of September 30, 2016	\$—	\$868	\$36	\$904

<sup>(1)</sup>The lease related charges for the nine months ended September 30, 2016, include \$0.4 million in offsets to restructuring charges related to an Entropic lease that was restructured during to the completion of the acquisition of



Entropic. The Company recorded a charge to the lease restructuring due to changes in market conditions. In the three months ended September 30, 2016, no offsets to restructuring charges related to Entropic leases are included.

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 5. Goodwill and Intangible Assets

## Goodwill

The changes in the carrying amount of goodwill were as follows:

	Carrying Value (in thousands)
Balance as of January 1, 2016	\$ 49,779
Acquisition of wireless infrastructure access business	6,935
Acquisition of wireless infrastructure backhaul business	19,080
Balance as of September 30, 2016	\$ 75,794

Goodwill is not amortized, but is tested for impairment using a two-step method on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair market value of the reporting unit. No goodwill impairment was recognized for three and nine months ended September 30, 2016 and 2015.

## Acquired Intangibles

## Finite-lived Intangible Assets

The following table sets forth the Company's finite-lived intangible assets resulting from business acquisitions and technology licenses purchased, which continue to be amortized:

	Weighted Average Useful Life (in Years)	September 30, 2016			December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)					
Licensed technology	3	\$3,311	\$ (2,917 )	\$ 394	\$2,921	\$ (2,725 )	\$ 196
Developed technology	7	74,700	(10,882 )	63,818	47,000	(4,652 )	42,348
Trademarks and trade names	7	1,700	(344 )	1,356	1,700	(162 )	1,538
Customer relationships	3.7	20,000	(3,036 )	16,964	4,700	(627 )	4,073
Covenants non-compete	3	900	(81 )	819	—	—	—
Backlog	0.5	26,600	(25,566 )	1,034	24,200	(24,200 )	—
		\$127,211	\$ (42,826 )	\$ 84,385	\$80,521	\$ (32,366 )	\$ 48,155

Amortization expense related to intangible assets was \$5.8 million and \$10.5 million in the three and nine months ended September 30, 2016, respectively, and \$13.8 million and \$23.2 million in the three and nine months ended September 30, 2015, respectively.

The following table sets forth the activity during the nine months ended September 30, 2016 related to finite-lived intangible assets resulting from the acquisition of the wireless infrastructure access business, wireless infrastructure backhaul business, other additions and amortization of acquired finite-lived intangible assets:

Carrying  
Amount  
(in  
thousands)

Edgar Filing: MAXLINEAR INC - Form 10-Q

Balance as of December 31, 2015	\$ 48,155
Acquisition of wireless infrastructure access business	12,300
Acquisition of wireless infrastructure backhaul business	34,000
Other additions	390
Amortization	(10,460 )
Balance as of September 30, 2016	\$ 84,385

17

---

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents future amortization of the Company's finite-lived intangible assets at September 30, 2016:

	Amortization (in thousands)
2016 (three months)	\$ 5,623
2017	18,360
2018	18,343
2019	12,042
2020	11,228
2021	10,850
Thereafter	7,939
Total	\$ 84,385

## Indefinite-lived Intangible Assets

The following table sets forth the activity of the Company's indefinite-lived intangible assets, which consists of in-process research and development technology:

	Gross Carrying Amount (in thousands)
Balance as of December 31, 2015	\$ 3,200
Acquisition of wireless infrastructure access business	1,300
Acquisition of wireless infrastructure backhaul business	22,300
IPR&D impairment losses <sup>(1)</sup>	(1,300 )
Balance as of September 30, 2016	\$ 25,500

<sup>(1)</sup> IPR&D impairment losses related to abandonment of IPR&D of the wireless infrastructure access business.

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. Impairment losses related to long-lived assets of \$1.3 million, which consisted of all of the IPR&D of the wireless infrastructure access business, were recognized for the three and nine months ended September 30, 2016. No impairment losses related to long-lived assets were recognized for the three and nine months ended September 30, 2015.

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 6. Financial Instruments

The composition of financial instruments is as follows:

	September 30, 2016			
	Amortized Cost (in thousands)	Gross Gains	Unrealized Losses	Fair Value
Assets				
Money market funds	\$115	\$ —	\$ —	\$115
Government debt securities	24,031	5	(3 )	24,033
Corporate debt securities	30,133	2	(2 )	30,133
	54,279	7	(5 )	54,281
Less amounts included in cash and cash equivalents	(115 )	—	—	(115 )
	\$54,164	\$ 7	\$ (5 )	\$54,166
	Fair Value at September 30, 2016 (in thousands)			
Liabilities				
Contingent Consideration	\$ 364			
Total	\$ 364			
	December 31, 2015			
	Amortized Cost (in thousands)	Gross Gains	Unrealized Losses	Fair Value
Assets				
Money market funds	\$17,144	\$ —	\$ —	\$17,144
Government debt securities	17,303	—	(30 )	17,273
Corporate debt securities	45,353	—	(84 )	45,269
	79,800	—	(114 )	79,686
Less amounts included in cash and cash equivalents	(17,144 )	—	—	(17,144 )
	\$62,656	\$ —	\$ (114 )	\$62,542
	Fair Value at December 31, 2015 (in thousands)			
Liabilities				
Contingent Consideration	\$ 395			
Total	\$ 395			

At September 30, 2016, the Company held 15 government and corporate debt securities with an aggregate fair value of \$26.6 million that were in an unrealized loss position for less than 12 months. No securities have been in unrealized loss positions for greater than 12 months. Gross unrealized losses were immaterial at September 30, 2016, and represented temporary impairments on government agency 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; 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.

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

All of the Company's long-term available-for-sale securities were due between 1 and 2 years as of September 30, 2016. 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, 2016, 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, 2016 and December 31, 2015 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 0.04 at September 30, 2016 and 0.41 at December 31, 2015. 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.

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, 2016			
	Quoted Prices			
	Balance at September 30, 2016	in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets				
Money market funds	\$ 115	\$ 115	\$ —	\$ —
Government debt securities	24,033	—	24,033	—
Corporate debt securities	30,133	—	30,133	—
	\$ 54,281	\$ 115	\$ 54,166	\$ —
Liabilities				

Contingent consideration	\$364	\$—	\$—	\$ 364
	\$364	\$—	\$—	\$ 364



## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Fair Value Measurements at December 31, 2015			
	Quoted Prices			
	Balance at December 31, 2015	in Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
<b>Assets</b>				
Money market funds	\$17,144	\$17,144	\$ —	\$ —
Government debt securities	17,273	—	17,273	—
Corporate debt securities	45,269	—	45,269	—
	\$79,686	\$17,144	\$ 62,542	\$ —
<b>Liabilities</b>				
Contingent consideration	\$395	\$—	\$ —	\$ 395
	\$395	\$—	\$ —	\$ 395

The following summarizes the activity in Level 3 financial instruments:

	Nine Months Ended September 30, 2016 2015 (in thousands)	
<b>Contingent Consideration <sup>(1)</sup></b>		
Beginning balance	\$395	\$265
Physpeed earn-out payment	(240 )	—
Loss (gain) recognized in earnings <sup>(2)</sup>	209	(123 )
Ending balance	\$364	\$142
Net (loss) gain for the period included in earnings attributable to contingent consideration held at the end of the period	\$(209)	\$123

In connection with the acquisition of Physpeed, the Company recorded contingent consideration based upon the <sup>(1)</sup>expected achievement of 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 unaudited consolidated statements of operations.

Changes to the estimated fair value of contingent consideration for the nine months ended September 30, 2016 were <sup>(2)</sup>primarily due to updates to present value discount factors. Changes to the estimated fair value of contingent consideration for the nine months ended September 30, 2015 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 financial instruments in nine months ended September 30, 2016.

## 7. Balance Sheet Details

Cash and cash equivalents and investments consist of the following:

	September	December
	30, 2016	31, 2015

(in thousands)

Cash and cash equivalents	\$56,076	\$67,956
Short-term investments	42,146	43,300
Long-term investments	12,020	19,242
	\$110,242	\$130,498

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventory consists of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Work-in-process	\$20,881	\$ 15,713
Finished goods	11,238	16,730
	\$32,119	\$ 32,443

Property and equipment consist of the following:

	Useful Life (in Years)	September 30, 2016	December 31, 2015
		(in thousands)	
Furniture and fixtures	5	\$2,187	\$ 2,458
Machinery and equipment	3 -5	27,035	23,679
Masks and production equipment	2	9,134	8,062
Software	3	3,706	3,017
Leasehold improvements	1 -5	11,310	9,573
Construction in progress	N/A	—	62
		53,372	46,851
Less accumulated depreciation and amortization		(31,422 )	(24,993 )
		\$21,950	\$ 21,858

Deferred revenue and deferred profit consist of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Deferred revenue—rebates	\$156	\$ 118
Deferred revenue—distributor transactions	7,518	5,695
Deferred cost of net revenue—distributor transactions	(2,380 )	(1,747 )
	\$5,294	\$ 4,066

A summary of activity in the accrued price protection liability is as follows:

	Nine Months Ended September 30, 2016		2015
	(in thousands)		
Beginning balance	\$20,026	\$ 10,018	
Additional liability from acquisition	—	1,309	
Charged as a reduction of revenue	34,501	28,522	
Reversal of unclaimed rebates	(1,302 )	(112 )	
Payments	(36,113 )	(20,033 )	
Ending balance	\$17,112	\$ 19,704	

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accrued expenses and other current liabilities consist of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Accrued technology license payments	\$5,989	\$ 3,000
Accrued professional fees	1,467	1,196
Accrued engineering and production costs	1,062	826
Accrued restructuring	904	3,416
Accrued litigation costs	—	534
Accrued royalty	908	2,042
Accrued leases - other	1,612	—
Warranty reserve	781	157
Accrued customer credits	2,554	951
Contingent consideration	364	395
Other	1,041	2,851
	\$16,682	\$ 15,368

## 8. Stock-Based Compensation and Employee Benefit Plans

Refer to the Company's Annual Report for a summary of the stock-based compensation and equity plans. In August 2016, the Board approved amendments to the Company's 2010 Equity Incentive Plan (the "Plan"). The terms of the amendment pertain to tax withholding obligations and the related treatment of shares surrendered in connection with tax withholding on the Company's share reserves under the Plan as a result of the Company's adoption of ASU 2016-09 in the prior quarter.

## 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 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, 2016 was \$18.78. 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. No stock options were granted during the nine months ended September 30, 2016 and 2015.

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	(in thousands)		(in thousands)	
Cost of net revenue	\$56	\$73	\$150	\$169
Research and development	4,332	3,496	10,916	8,889
Selling, general and administrative	1,876	1,442	5,409	4,466
	\$6,264	\$5,011	\$16,475	\$13,524

The total unrecognized compensation cost related to unvested stock options as of September 30, 2016 was \$0.8 million, and the weighted average period over which these equity awards are expected to vest is 1.19 years. The total unrecognized compensation cost related to unvested RSUs and RSAs as of September 30, 2016 was \$48.9 million,

and the weighted average period over which these equity awards are expected to vest is 2.86 years.

23

---

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited; 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 related to assumed Entropic stock options and RSUs was \$0.1 million and \$0.6 million in the three and nine months ended September 30, 2016. Stock-based compensation expense related to assumed Entropic stock options and RSUs was \$0.8 million and \$3.2 million in the three and nine months ended September 30, 2015.

## Employee Incentive Bonus

In connection with the Company's bonus programs, in August 2016 we issued 0.2 million freely-tradable shares of our Class A common stock in settlement of bonus awards to employees, including executives, for the January 1, 2016 to June 30, 2016 performance period. In May 2016, we issued 0.2 million shares of our Class A common stock in settlement of bonus awards to employees, including executives, for the July 1, 2015 to December 31, 2015 performance period. In August 2015, we issued 0.3 million shares of our Class A common stock in settlement of bonus awards for the January 1, 2015 to June 30, 2015 performance period under our bonus plan. In May 2015, we issued 0.2 million freely-tradable shares of our Class A common stock in settlement of bonus awards for the fiscal 2014 performance period under our bonus plan.

## Restricted Stock Units and Restricted Stock Awards

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

	Number of Shares (in thousands)	Weighted-Average Grant-Date Fair Value per Share
Outstanding at December 31, 2015	3,642	\$ 9.19
Granted	2,861	18.78
Vested	(1,930 )	11.53
Canceled	(426 )	12.09
Outstanding at September 30, 2016	4,147	14.43

The intrinsic value of restricted stock units and restricted stock awards vested was \$11.5 million and \$34.6 million in the three and nine months ended September 30, 2016, respectively, and \$10.7 million and \$25.8 million in the three and nine months ended September 30, 2015, respectively. The intrinsic value of restricted stock units and restricted stock awards outstanding at September 30, 2016 was \$84.0 million.

## Stock Options

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

	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2015	3,572	\$ 6.83		
Granted <sup>(1)</sup>	—	—		
Exercised	(430 )	5.31		
Canceled	(55 )	24.16		
Outstanding at September 30, 2016	3,087	\$ 6.73	2.96	\$ 42,123
Vested and expected to vest at September 30, 2016	3,078	\$ 6.73	2.96	\$ 42,018
Exercisable at September 30, 2016	2,799	\$ 6.58	2.83	\$ 38,660

<sup>(1)</sup> No options were granted during the nine months ended September 30, 2016.

The intrinsic value of stock options exercised was \$0.3 million and \$5.5 million in the three and nine months ended September 30, 2016, respectively, and \$2.8 million and \$4.1 million in the three and nine months ended September 30, 2015, respectively.

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## Employee Stock Purchase Rights

The fair values of employee stock purchase rights were estimated using the Black-Scholes option pricing model at their respective grant date using the following assumptions:

	Nine Months Ended September 30, 2016	
Weighted-average grant date fair value per share	\$5.02 - \$7.44	
Risk-free interest rate	0.33 - 0.38%	
Dividend yield	—	%
Expected life (in years)	0.50	
Volatility	59.14 - 83.71%	

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 expected life is the duration of the offering period for each grant date, which occurs on a semi-annual basis. In addition, the estimated volatility incorporates the historical volatility of the Company's daily share closing price.

## 9. 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 provision for income taxes primarily relates to projected current federal and state income taxes and income taxes in certain foreign jurisdictions. 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.

The Company utilizes the asset and liability method of accounting for income taxes. The Company records deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence quarterly, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based upon the Company's review of all positive and negative evidence, the Company concluded that a full valuation allowance should continue to be recorded against its U.S. and certain foreign net deferred tax assets at September 30, 2016. Additionally, the Company completed the acquisition of Entropic in the second quarter 2015. As a result of the acquisition, there was a valuation allowance release that resulted in a tax benefit of \$1.8 million due to the purchase accounting adjustment for the net deferred tax liability. Furthermore, the Company does not incur expense or benefit in certain tax free jurisdictions in which it operates.

The Company recorded a provision for income taxes of \$1.1 million and \$2.2 million in the three and nine months ended September 30, 2016, respectively, and a provision for income taxes of \$0.5 million and a benefit of \$0.6 million in the three and nine months ended September 30, 2015, respectively. The provision for income taxes in the three and nine months ended September 30, 2016 primarily relates to federal alternative minimum tax due to the Company's limitation on use of net operating losses, credit carryforwards, state income taxes, and income taxes in certain foreign jurisdictions. During the quarter ended June 30, 2016, the Company adopted ASU No. 2016-09, Improvements to Share-Based Compensation, which resulted in the recognition of excess tax benefits within the provision for income taxes in the unaudited consolidated statement of operations. For the three and nine months ended September 30, 2016, the impact of including net excess tax benefits was to reduce the provision for income taxes by \$0.9 million and \$6.0 million in the unaudited consolidated statements of operations (Note 1). The income tax provision (benefit) in the three and nine months ended September 30, 2015 primarily relates to income taxes in certain foreign jurisdictions.



Edgar Filing: MAXLINEAR INC - Form 10-Q

During the nine months ended September 30, 2016, the Company's unrecognized tax benefits increased by \$6.2 million. The Company expects decreases to its unrecognized tax benefits of \$0.2 million within twelve months, due to the lapse of statutes of limitations. Accrued interest and penalties associated with uncertain tax positions as of September 30, 2016 were \$0.2 million and \$0.02 million, respectively.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. As of September 30, 2016, the Company is currently under examination in India for the 2014 and 2015 tax years. The Company is not currently under any other tax examinations.

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 10. Concentration of Credit Risk and Significant Customers

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

The Company markets its products and services to manufacturers of wired and wireless communications equipment throughout the world. The Company makes periodic evaluations of the credit worthiness of its customers.

Net revenues greater than 10% to end customers for each of the periods presented are as follows:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Percentage of net revenue				
Arris <sup>(1)</sup>	28 %	30 %	27 %	30 %
Technicolor <sup>(2)</sup>	*	*	11 %	*
WNC Corporation	*	11 %	*	*
Cisco <sup>(2)</sup>	N/A	10 %	N/A	13 %

\*Represents less than 10% of the net revenue for the respective period.

(1) In January 2016, Arris completed its acquisition of Pace. The revenue percentage attributed to Arris includes sales made to Pace in the three and nine months ended September 30, 2016.

(2) In November 2015, Technicolor completed its purchase of Cisco's connected devices business. Prior to Technicolor's purchase of Cisco, Cisco was a significant customer in the three and nine months ended September 30, 2015.

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, 2016		Nine Months Ended September 30, 2015	
Percentage of net revenue				
China	73 %	65 %	81 %	61 %

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

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

	September 30, 2016		December 31, 2015	
Percentage of gross accounts receivable				
WNC Corporation	10 %	16 %	16 %	17 %
Pegatron Corporation	17 %	17 %	17 %	17 %

Edgar Filing: MAXLINEAR INC - Form 10-Q

Sernet Technologies Corporation	*	14	%
MTI Jupiter Technologies	*	13	%

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

26

---

## MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 11. Commitments and Contingencies

## Lease Commitments and Other Contractual Obligations

The Company leases facilities and certain equipment under operating lease arrangements expiring at various years through fiscal 2022. As of September 30, 2016, future minimum payments under non-cancelable operating leases, other obligations, and inventory purchase obligations are as follows:

	Operating Leases	Other Obligations	Inventory Purchase Obligations	Total
	(in thousands)			
2016 (three months)	\$2,418	\$ 3,574	\$ 15,284	\$21,276
2017	8,240	4,889	—	13,129
2018	6,443	859	—	7,302
2019	6,232	14	—	6,246
2020	6,516	—	—	6,516
Thereafter	7,976	—	—	7,976
Total minimum payments	\$37,825	\$ 9,336	\$ 15,284	\$62,445

On May 6, 2015, the Company amended a lease arrangement with The Campus Carlsbad, LLC, so that the current Carlsbad office space of approximately 45,000 square feet expanded to include an additional 24,000 square feet of space. The original lease, which had a term of three years and seven months with an original expiration date of November 30, 2019, was extended to an expiration date of June 30, 2022. In 2015, the Company completed tenant improvement activities and expanded into this office space. The Company was provided a tenant improvement allowance of approximately \$1,543,000 for tenant improvement costs and related fees and expenses.

On November 11, 2015, the Company entered into a real property lease with The Northwestern Mutual Life Insurance Company, a Wisconsin corporation, with respect to the lease of approximately 50,235 square feet of office and laboratory space located at 50 Parker in Irvine, California. The Company relocated its current operations in Irvine, California to the new facility in May 2016.

The lease has an initial term of six years and two months, commencing on the later of (i) April 1, 2016 or (ii) the date upon which certain building and tenant improvements have been substantially completed and possession of the substantially completed premises has been tendered by the landlord to the Company. The base monthly rent under the lease is approximately \$68,000 per month during the first year of the initial lease term, increasing to approximately \$86,000 per month during the last year of the initial lease term. The lease contains an option to extend the lease term for a single, five-year period. If the lease term is extended for the optional five-year period, the monthly base rent will be adjusted based on the fair market rental value. In addition to base rent, the Company has agreed to pay for a proportional share of the common area operating expenses and real property taxes. The lease includes customary provisions providing for late fees for unpaid rent, landlord access to the property, insurance obligations and events of default. In addition, this agreement includes tenant improvement incentives of \$2.7 million.

## 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, or the District Court Litigation. In its complaint, CrestaTech alleges that we infringe U.S. Patent Nos. 7,075,585, or the '585 Patent, and 7,265,792, or the '792 Patent. In addition to asking for compensatory damages, CrestaTech 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, among others, MaxLinear, Sharp, Sharp Electronics, and VIZIO, or 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., which are collectively referred to with MaxLinear, Sharp and VIZIO as the Company Respondents. CrestaTech's ITC complaint alleged a violation of 19 U.S.C. § 1337 through the importation into the United

MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

States, the sale for importation, or the sale within the United States after importation of the Company's accused products that CrestaTech alleged infringe the same two patents asserted in the Delaware action. Through its ITC complaint, CrestaTech sought an exclusion order preventing entry into the United States of certain of the Company's television tuners and televisions containing such tuners from Sharp, Sharp Electronics, and VIZIO. CrestaTech also sought 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.

On March 10, 2014, the court stayed the District Court Litigation pending resolution of the ITC Investigation.

On December 15, 2014, the ITC held a trial in the ITC Investigation. On February 27, 2015, the Administrative Law Judge, or the ALJ, issued a written Initial Determination, or 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 Company's 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 ITC subsequently issued its opinion, which terminated its investigation. The opinion affirmed the findings of the ALJ 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 ALJ's finding of infringement with respect to the three claims of the '585 Patent that were not held to be invalid.

On November 30, 2015, CrestaTech filed an appeal of the ITC decision with the United States Court of Appeals for the Federal Circuit, or the Federal Circuit. On March 7, 2016, CrestaTech voluntarily dismissed its appeal resulting in final resolution of the ITC Investigation in our favor.

In addition, the Company has filed four petitions for inter partes review, or IPR, by the US Patent Office, two for each of the CrestaTech patents asserted against the Company. The Patent Trial and Appeal Board, or the PTAB, did not institute two of these IPRs as being redundant to IPRs filed by another party that were 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 the Company.

In October 2015, the PTAB issued final decisions in two of the six pending IPR proceedings (one for each of the two asserted patents), holding that all of the reviewed claims are unpatentable. Included in these decisions was one of the three claims of the '585 Patent mentioned above in connection with the ITC's final decision. CrestaTech appealed the PTAB's decisions at the Federal Circuit. The parties have completed briefing in this appeal and oral argument is scheduled for November 2016. In August 2016, the PTAB issued final written decisions in the remaining four pending IPR proceedings (two for each of the asserted patents), holding that many of the reviewed claims - including the two remaining claims of the '585 Patent which the ITC held were infringed - are unpatentable. As a result of these IPR decisions, all 13 claims that CrestaTech asserted against us in the ITC Investigation have been found to be unpatentable by the PTAB. The parties have filed notices to appeal the two decisions related to the '585 Patent.

CrestaTech, however, did not appeal the PTAB's rulings related to the '792 Patent.

On March 18, 2016, CrestaTech filed a petition for Chapter 7 bankruptcy in the Northern District of California. As a result of this proceeding, all rights in the CrestaTech asserted patents, including the right to control the pending litigation, were assigned to CF Crespe LLC, or CF Crespe. CF Crespe is now the named party in the pending IPRs, the Federal Circuit appeal and District Court Litigation. CF Crespe has not sought to lift the stay in the District Court Litigation given the resolution of the ITC Investigation.

The Company cannot predict the outcome of any appeal by CrestaTech, the District Court Litigation, or the IPRs. Any adverse determination in the District Court Litigation could have a material adverse effect on the Company's business

and operating results.

Trango Systems, Inc. Litigation

On or about August 2, 2016, Trango Systems, Inc., or Trango, filed a complaint in the Superior Court of California, County of San Diego, Central Division, against defendants Broadcom Corporation, Inc., or Broadcom, and MaxLinear,

28

---

MAXLINEAR, INC.

Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

collectively, Defendants. Trango is a purchaser that alleges fraud, negligent misrepresentation, breach of contract, intentional interference with economic relations, negligent interference with economic relations, intentional interference with prospective economic relations, negligent interference with prospective economic relations, unlawful and unfair business acts and practices, and aiding and abetting, in connection with the discontinuance of a chip line MaxLinear recently acquired from Broadcom. Trango seeks unspecified general and special damages, pre-judgment interest, expenses and costs, statutory penalties, attorneys' fees, punitive damages, and an assignment of intellectual property rights. On or about September 1, 2016, Trango filed its first amended complaint, which contains the same causes of action. MaxLinear intends to vigorously defend against the lawsuit. On October 4, 2016, MaxLinear filed its demurrer to each cause of action in the first amended complaint.

On or about October 14, 2016, Trango filed a new complaint in a separate action against Defendants. The new complaint is nearly identical to the first amended complaint in the initial action. Trango has not yet attempted to serve MaxLinear with the new complaint.

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

**Other Matters**

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

**12. Subsequent Events**

In the fourth quarter of 2016, the Company intends to complete and approve a restructuring plan to realign resources with the Company's current objectives. Management expects to incur restructuring expenses related to employee separation charges and lease-related impairment charges in an aggregate amount ranging from approximately \$1.5 million to \$2.0 million.

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

**Forward-Looking Statements**

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

**Overview**

We are a provider of radio frequency, or RF, and mixed-signal integrated circuits for cable and satellite broadband communications and the connected home, and wired and wireless infrastructure markets. Our high performance 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. Through our acquisition of the Microsemi wireless infrastructure access business in April of 2016, we provide integrated circuits for wireless infrastructure markets, including wideband RF transceivers and synthesizers for 3G, 4G, and future 5G cellular base station and remote radio head (RRH) unit platforms. Through our recently closed acquisition of the Broadcom wireless infrastructure backhaul business in July of 2016, we also provide modem and RF transceiver solutions into cellular infrastructure backhaul applications.

Table of Contents

Our net revenue has grown from approximately \$0.6 million in fiscal 2006 to \$300.4 million in fiscal 2015. In the nine months ended September 30, 2016, revenues were \$300.7 million. In fiscal 2015 and in the nine months ended September 30, 2016, our net revenue was derived primarily from sales of RF receivers and RF receiver systems-on-chip and MoCA connectivity solutions into broadband operator voice and data modems and gateways, and global analog and digital RF receiver products for analog and digital Pay-TV applications. These analog and digital television applications include Direct Broadcast Satellite outdoor unit (DBS ODU) solutions, which consist of our translation switch (BTS) and channel stacking switch (CSS) products. These products 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 on, among other factors, 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 infrastructure equipment. Products shipped to Asia accounted for 90% and 92% in the three and nine months ended September 30, 2016, respectively, and 90% and 90% of net revenue in the three and nine months ended September 30, 2015, respectively. Although a large percentage of our products are 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 in the three and nine months ended September 30, 2016 and 2015 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 in the three and nine months ended September 30, 2016 and 2015 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. There is a growing portion of our business, related specifically to our high-speed optical interconnect products, that are shipped to, and are ultimately consumed in Asian markets, with the majority of these products being purchased by end customers in China.

A significant portion of our net revenue has historically been generated by a limited number of customers. In the three months ended September 30, 2016, one of our customers, Arris Group, Inc., or Arris, accounted for 28% of our net revenue, and our ten largest customers collectively accounted for 73% of our net revenue. In the nine months ended September 30, 2016, Arris accounted for 27% of our net revenue, and our ten largest customers collectively accounted for 77% of our net revenue. In the three months ended September 30, 2015, Arris accounted for 30% 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, one of our customers, Arris, accounted for 30% of our net revenue, and our ten largest customers collectively accounted for 76% of our net revenue. For certain customers, we sell multiple products into disparate end user applications such as cable modems, satellite set-top boxes and broadband gateways.

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

On April 30, 2015, we completed our acquisition of Entropic. Pursuant to the terms of the merger agreement or merger agreements dated as of February 3, 2015, by and among MaxLinear, Entropic, and two wholly-owned subsidiaries of MaxLinear, all of the Entropic outstanding shares were converted into the right to receive consideration consisting of cash and shares of our Class A common stock. We paid an aggregate of \$111.1 million in cash and issued an aggregate of 20.4 million shares of our Class A common stock to the stockholders of Entropic. In addition, we assumed all outstanding Entropic stock options and unvested restricted stock units that were held by continuing service providers (as defined in the merger agreement). We 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, our own cash and cash equivalents.

## Table of Contents

### Recent Developments

On April 28, 2016, we entered into an asset purchase agreement with Microsemi Storage Solutions, Inc., formerly known as PMC-Sierra, Inc., or Microsemi, and consummated the transactions contemplated by the asset purchase agreement. We paid cash consideration of \$21.0 million for the purchase of certain wireless access assets of Microsemi's wireless infrastructure access business, and assumed certain specified liabilities. The assets acquired include, among other things, radio frequency and analog/mixed signal patents and other intellectual property, in-production and next-generation RF transceiver designs, a workforce-in-place, and other intangible assets, as well as tangible assets that include but are not limited to production masks and other production related assets, inventory, and other property, plant, and equipment. The liabilities assumed include, among other things, product warranty obligations and accrued vacation and severance obligations for employees of the wireless infrastructure access business that were rehired by the Company.

On May 9, 2016, we entered into a definitive agreement to purchase certain assets and assume certain liabilities of the wireless infrastructure backhaul business of Broadcom Corporation, or Broadcom. On July 1, 2016, we consummated the transactions contemplated by the purchase agreement and paid aggregate cash consideration of \$80.0 million and hired certain employees of the wireless infrastructure backhaul business. The assets acquired include, among other things, digital baseband, radio frequency, or RF, and analog/mixed signal patents and other intellectual property, in-production and next-generation digital baseband and RF transceiver integrated circuit and reference platform designs, a workforce-in-place, and other intangible assets, as well as tangible assets that include but are not limited to production masks and other production related assets, inventory, and other property and equipment. The liabilities assumed include, among other things, product warranty obligations, liabilities for technologies acquired, and a payable to Broadcom as reimbursement of costs associated with the termination of those employees of the wireless infrastructure backhaul business who were not hired by MaxLinear upon the closing of the acquisition. For more information, please refer to Note 3 of our consolidated financial statements.

The acquired assets and liabilities, together with the rehired employees for each of these acquisitions, represent a business as defined in ASC 805, Business Combinations. We are integrating the acquired assets and rehired employees into our existing business.

In the fourth quarter of 2016, we intend to complete and approve a restructuring plan to realign our resources with our current objectives. We expect to incur restructuring expenses related to employee separation charges and lease-related impairment charges in an aggregate amount ranging from approximately \$1.5 million to \$2.0 million.

### Critical Accounting Policies and Estimates

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

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

For a summary of our critical accounting policies and estimates, refer to Management's Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2015, which we filed with the Securities and Exchange Commission, or SEC, on February 17, 2016, as amended by Amendment No. 1 on Form 10-K/A filed with the SEC on April 28, 2016, or our Annual Report. There have been no material changes to our critical accounting policies and estimates during the nine months ended September 30, 2016, other than our adoption of ASU No.

2016-09, Improvements to Share-Based Compensation during the three months ended June 30, 2016, as discussed under Recent Accounting Pronouncements below.

31

---

Table of Contents

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 us 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. We are currently evaluating the impact of adopting this new accounting standard on our consolidated financial position and results of operations. Adoption of the amendments in this guidance is expected to accelerate the timing of our revenue recognition on products sold via distributors which will change from the sell-through method to the sell-in method. We are currently evaluating the impact of adopting this new accounting standard on our consolidated financial position and results of operations; however, the change could have a significant impact on our revenues for the year ending December 31, 2018 and comparative periods presented, depending on the volume and amount of distributor transactions for such periods.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which requires inventory to be subsequently measured using the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in this Update are effective for us beginning in the first quarter of fiscal 2017 and should be applied prospectively. The adoption of the amendments in this Update are not expected to have a material impact on our consolidated financial position and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this Update require a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term for all leases with terms greater than twelve months. For leases less than twelve months, an entity is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The amendments in this Update are effective for us for fiscal years beginning with fiscal year 2019, including interim periods within those years, with early adoption permitted. We are currently in the process of evaluating the impact of adoption of the amendments in this Update on our consolidated financial position and results of operations; however, adoption of the amendments in this Update are expected to be material for most entities, including the Company, that have a material lease greater than twelve months.

In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) to clarify the revenue recognition implementation guidance on principal versus agent considerations. The amendments in this Update clarify that when another party is involved in providing goods or services to a customer, an entity that is the principal has obtained control of a good or service before it is transferred to a customer, and provides indicators to assist an entity in determining whether it controls a specified good or service prior to the transfer to the customer. An entity that is the principal recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer, whereas an agent recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party. The amendments in this Update are effective for us beginning in the first quarter of fiscal year 2018, concurrent with the new revenue recognition standard. We are currently evaluating the impact of adopting the new revenue recognition accounting standard, including this Update, on its consolidated financial position and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Share-Based Compensation to simplify certain aspects of accounting for share-based payment transactions associated with income taxes, classification as equity or liabilities, and classification on the statement of cash flows. The amendments in this Update are effective for the Company for fiscal years beginning with fiscal year 2017, including interim periods within those years, with early adoption permitted. Early adoption, if elected, must be completed for all of the amendments in the same period. The new guidance requires, among other things, excess tax benefits and tax deficiencies to be recorded in the income statement in the provision for income taxes when awards vest or are settled. Also, because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share is amended to exclude the amount of excess tax benefits that would be recognized in additional paid-in capital. The Company adopted ASU No. 2016-09 during the quarter ended June 30, 2016, as previously described in the Company's Form 10-Q for the period ended June 30, 2015 filed with the Securities Exchange Commission on August 8, 2016. For the three and nine months ended September 30, 2016 the impact on the Company's results of operations was to reduce the provision for income taxes and increase net income by \$0.9 million and \$6.0 million, respectively, and increase net income per share by \$0.01 and \$0.09 for the three and nine months

Table of Contents

ended September 30, 2016, respectively, and increase diluted net income per share by \$0.01 and \$0.08 for the three and nine months ended September 30, 2016, respectively. The increase to diluted net income per share includes the effect of the reduction of the tax provision and an increase in the number of incremental shares used in computing diluted EPS by 833,000 shares and 856,000 shares for the three and nine months ended September 30, 2016, respectively (Note 2).

There was no cumulative effect on retained earnings in the consolidated balance sheet since we have a full valuation allowance against U.S. deferred tax assets. We elected to continue to estimate forfeitures of share-based awards resulting in no impact to stock-based compensation expense, and are also continuing to classify cash paid by us when directly withholding shares for tax withholding purposes in cash flows from financing activities.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments to eliminate the diversity in practice regarding the presentation and classification of certain cash receipts and cash payments, including, among other things, contingent consideration payments made following a business combination and proceeds from the settlement of insurance claims in the statement of cash flows. Cash payments not made soon after the acquisition date up to the amount of the contingent consideration liability recognized at the acquisition date should be classified as financing activities, with any excess payments classified as operating activities, whereas cash payments made soon after the acquisition date to settle the contingent consideration should be classified as investing activities. Cash proceeds received from settlement of insurance claims should be classified on the basis of the nature of the related losses. The amendments in this Update are effective for fiscal years beginning with fiscal year 2017, including interim periods within those years, with early adoption permitted. We do not expect the adoption of this guidance will have a material impact on our consolidated statement of cash flows.

Results of Operations

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

**Net Revenue.** Net revenue is generated from sales of integrated radio frequency analog and mixed signal semiconductor solutions for broadband communication applications. A significant but declining portion of our end customers purchases products indirectly from us through distributors. Although we actually sell the products to, and are paid by, the distributors, we refer to these end customers as our customers.

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

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

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

**IPR&D Impairment Losses.** IPR&D impairment losses consist of charges resulting from the impairment of acquired in-process research and development technology during the period.

**Restructuring Charges.** Restructuring charges consist of employee severance and stock-based compensation expenses, and lease and leasehold impairment charges related to our restructuring plan entered into as a result of our acquisition of Entropic, and an adjustment related to restructuring plan implemented by Entropic prior to our acquisition.



Interest Income. Interest income consists of interest earned on our cash, cash equivalents and investment balances.  
Other Income (Expense). Other income (expense) generally consists of income (expense) generated from non-operating transactions.

Table of Contents

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

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net revenue	100%	100%	100%	100%
Cost of net revenue	42	46	40	51
Gross profit	58	54	60	49
Operating expenses:				
Research and development	27	25	25	31
Selling, general and administrative	18	27	16	30
IPR&D impairment losses	1	—	—	—
Restructuring charges	—	—	1	6
Total operating expenses	46	52	42	67
Income (loss) from operations	12	2	18	(18)
Interest income	—	—	—	—
Other income (expense), net	—	1	—	—
Income (loss) before income taxes	12	3	18	(18)
Provision for income taxes (income tax benefit)	1	1	1	—
Net income (loss)	11	% 2	% 17	% (18)%
Net Revenue				

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(dollars in thousands)				(dollars in thousands)			
Operator	\$73,236	\$68,171	\$5,065	7 %	\$226,973	\$150,205	\$76,768	51 %
% of net revenue	76	% 72	%		75	% 75	%	
Infrastructure and other	16,046	8,307	7,739	93 %	41,877	19,989	21,888	110 %
% of net revenue	17	% 9	%		14	% 10	%	
Legacy video SoC	7,042	18,713	(11,671)	(62)%	31,846	31,217	629	2 %
% of net revenue	7	% 19	%		11	% 15	%	
Total net revenue	\$96,324	\$95,191	\$1,133	1 %	\$300,696	\$201,411	\$99,285	49 %

Net revenue increased \$1.1 million from \$95.2 million in the three months ended September 30, 2015 to \$96.3 million in the three months ended September 30, 2016. The increase in net revenue was due to \$5.1 million of increased revenue from operator applications, related primarily to increased satellite gateway and cable modem and gateway shipments, partially offset by decreased analog channel-stacking, or aCSS, shipments. In addition, we had a \$7.7 million increase related to infrastructure and other revenues due to an increase in high-speed interconnect product shipments and full-quarter contribution of shipments from the recently acquired wireless access and wireless backhaul infrastructure businesses, partially offset by declines in consumer terrestrial set-top box shipments and TV tuner product shipments. Shipments of legacy video SoC products declined by \$11.7 million in the three months ended

September 30, 2016 as compared to the three months ended September 30, 2015.

34

---

Table of Contents

We expect year-over-year revenue declines in the legacy video SoC and aCSS products we acquired from Entropic to continue, as these products are near the end of their life cycles, which along with other factors, including but not limited to operator consolidation, could adversely affect future revenues for these product categories.

Net revenue increased \$99.3 million from \$201.4 million in the nine months ended September 30, 2015 to \$300.7 million in the nine months ended September 30, 2016. The increase in net revenue was due to \$76.8 million of increased revenue from operator applications, related primarily to increased satellite gateway, digital and aCSS, and satellite and cable MoCA product shipments; increases in aCSS and MoCA shipments were largely related to the acquisition of Entropic on April 30, 2015. In addition, we had a \$21.9 million increase related to infrastructure and other revenues due to a continued ramp of high-speed interconnect product shipments and contributions from the recently acquired wireless access and wireless backhaul infrastructure businesses. Legacy video SoC shipments increased by \$0.6 million in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015.

## Cost of Net Revenue and Gross Profit

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(dollars in thousands)				(dollars in thousands)			
Cost of net revenue	\$40,820	\$44,141	\$(3,321)	(8)%	\$121,109	\$101,748	19,361	19%
% of net revenue	42%	46%			40%	51%		
Gross profit	55,504	51,050	4,454	9%	179,587	99,663	79,924	80%
% of net revenue	58%	54%			60%	49%		

Cost of net revenue decreased \$3.3 million from \$44.1 million in the three months ended September 30, 2015 to \$40.8 million in the three months ended September 30, 2016. The decrease was primarily driven by an increase in sales of higher margin products, partially offset by increased inventory step-up costs of \$1.7 million primarily related to the acquisition of the wireless infrastructure backhaul business. The increase in gross profit percentage in the three months ended September 30, 2016, as compared to the three months ended September 30, 2015, was due to an increase in sales of higher margin products, partially offset by increased intellectual property amortization cost of \$1.0 million and amortization of inventory step-up costs of \$1.7 million related to the recently acquired wireless infrastructure backhaul business.

Cost of net revenue increased \$19.4 million from \$101.7 million in the nine months ended September 30, 2015 to \$121.1 million in the nine months ended September 30, 2016. This increase was primarily driven by increased sales. The increase in gross profit percentages in the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, was primarily due to an increase in fixed cost absorption due to higher sales, aided by an increase in sales of higher margin products and a decrease in amortization of inventory step-up costs of \$11.3 million primarily related to the Entropic acquisition.

## Research and Development

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(dollars in thousands)				(dollars in thousands)			
Research and development	\$25,921	\$23,491	\$2,430	10%	\$73,710	\$62,765	\$10,945	17%
% of net revenue	27%	25%			25%	31%		

Research and development expense in the three months ended September 30, 2016 increased \$2.4 million to \$25.9 million from \$23.5 million in the three months ended September 30, 2015. The increase was primarily due to increases in payroll-related expense and occupancy expense related to our acquisitions of the wireless access business from Microsemi, and the wireless infrastructure backhaul business from Broadcom.



Table of Contents

Research and development expense in the nine months ended September 30, 2016 increased \$10.9 million to \$73.7 million from \$62.8 million in the nine months ended September 30, 2015. The increase was primarily due to increases in payroll-related expense and occupancy expense related to our acquisitions of the wireless access assets from Microsemi, and the wireless infrastructure backhaul business from Broadcom. Year-on-year increases in prototype expense, design tools expense, and depreciation expense were primarily due to a higher number of projects.

We expect our research and development expenses to increase in the future as we continue to focus on expanding our product portfolio and enhancing existing products.

## Selling, General and Administrative

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(dollars in thousands)				(dollars in thousands)			
Selling, general and administrative	\$17,619	\$25,457	\$(7,838)	(31)%	\$47,734	\$60,021	\$(12,287)	(20)%
% of net revenue	18	% 27	%		16	% 30	%	

Selling, general and administrative expense decreased \$7.8 million and \$12.3 million from \$25.5 million and \$60.0 million in the three and nine months ended September 30, 2015, respectively, to \$17.6 million and \$47.7 million in the three and nine months ended September 30, 2016, respectively. The decrease was primarily due to a decrease in intangible amortization expense related to product backlog from the Entropic acquisition in the prior year.

We expect selling, general and administrative expenses to increase in the future as we expand our sales and marketing organization to enable expansion into existing and new markets and continue to build our international administrative infrastructure.

## IPR&amp;D impairment losses

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(dollars in thousands)				(dollars in thousands)			
IPR&D impairment losses	\$1,300	\$—	\$1,300	100%	\$1,300	\$—	1,300	100%
% of net revenue	1	% —%			—	% —%		

IPR&D impairment losses increased by \$1.3 million from \$0 in the three and nine months ended September 30, 2015 to \$1.3 million in three and nine months ended September 30, 2016. IPR&D impairment losses for the three and nine months ended September 30, 2016 consisted of IPR&D technology acquired from the wireless infrastructure access business which we abandoned in the third quarter of 2016.

## Restructuring charges

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(dollars in thousands)				(dollars in thousands)			
Restructuring charges	\$—	\$425	\$(425)	100%	\$2,106	\$11,814	\$(9,708)	(82)%
% of net revenue	—%	—%			1	% 6	%	

Restructuring charges decreased from \$0.4 million in the three months ended September 30, 2015 to \$0 in the three months ended September 30, 2016. The charges in the three months ended September 30, 2015 consisted of employee



Table of Contents

separation expenses and impairment charges related to lease arrangements incurred in connection with the Entropic acquisition. In the three months ended September 30, 2016, there were no similar charges.

Restructuring charges decreased \$9.7 million from \$11.8 million in the nine months ended September 30, 2015 to \$2.1 million in the nine months ended September 30, 2016 primarily due to decreases in employee separation expenses and impairment charges related to lease arrangements incurred in 2015 in connection with the Entropic acquisition. The 2016 expenses consist solely of restructuring expenses incurred in the first quarter of 2016 related to lease arrangements assumed in connection with the Entropic acquisition. There were no employee separation expenses recorded due to restructuring in the nine months ended September 30, 2016.

## Interest and Other Expense, Net

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(dollars in thousands)				(dollars in thousands)			
Interest income	\$89	\$47	\$42	89%	\$426	\$168	\$258	154%
Other income (expense), net	10	407	(397)	(98)%	(64)	351	(415)	(118)%

Interest income increased \$0.04 million from \$0.05 million in the three months ended September 30, 2015 to \$0.09 million in the three months ended September 30, 2016, due to higher average cash and investment balances held during the quarter. The changes in other income (expense), net was primarily due to fluctuations in foreign currency transactions.

Interest income increased \$0.3 million from \$0.2 million in the nine months ended September 30, 2015 to \$0.4 million in the nine months ended September 30, 2016 due to higher average cash and investment balances held during the period. The decrease in other expense, net was primarily due to fluctuations in foreign currency transactions.

## Provision for Income Taxes

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
	(dollars in thousands)				(dollars in thousands)			
Provision (benefit) from income taxes	\$1,084	\$549	\$535	97%	\$2,155	\$(631)	2,786	(442)%
% of net revenue	1	% 1	%		1	% —	%	

The provision for income taxes in the three months ended September 30, 2016 was \$1.1 million or approximately 10% of pre-tax income compared to \$0.5 million or approximately 26% of pre-tax income in the three months ended September 30, 2015. The provision for income taxes in the nine months ended September 30, 2016 was \$2.2 million or approximately 4% of pre-tax income compared to a benefit from income taxes of \$0.6 million or approximately 2% of pre-tax loss in the nine months ended September 30, 2015.

The provision for income taxes for the three and nine months ended September 30, 2016 primarily relates to federal alternative minimum tax due to our limitation on use of net operating losses, credit carryforwards, state income taxes, and income taxes in certain foreign jurisdictions. 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. During the quarter ended June 30, 2016, we adopted ASU No. 2016-09, Improvements to Share-Based Compensation, which resulted in the recognition of net excess tax benefits on share-based awards within the provision for income taxes in the unaudited consolidated statement of operations. For the three and nine months ended September 30, 2016, the impact of including net excess tax benefits was to reduce the provision for income taxes by \$0.9 million and \$6.0



million in the unaudited statement of operations for the three and nine months ended September 30, 2016, respectively. The provision for income taxes for the three and nine months ended September 30, 2015 primarily relates to income taxes in certain foreign jurisdictions. Since the amount of such excess tax benefits and deficiencies depend on the fair market value of our common stock, our income tax provision is now subject to volatility in our stock price and in the future, could unfavorably affect our future effective tax rate.

Table of Contents

We continue to maintain a valuation allowance to offset the federal, California and certain foreign deferred tax assets as realization of such assets does not meet the more-likely-than-not threshold required under accounting guidelines. In making such determination, we consider all available positive and negative evidence quarterly, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. As of September 30, 2016, we are now in a three-year U.S. cumulative pre-tax book income position. Based upon our review of all positive and negative evidence, we concluded that a full valuation allowance should continue to be recorded against our U.S. and certain foreign net deferred tax assets at September 30, 2016. We are closely assessing the need for a valuation allowance on the deferred tax assets by evaluating positive and negative evidence that may exist. If we continue to generate taxable income, we could remove some or all of the valuation allowance against federal, California and certain foreign deferred tax assets if we meet the more-likely-than-not threshold. The impact of releasing some or all of such valuation allowance will be material in the period in which such release occurs. Until such time that we remove the valuation allowance against our federal, California and certain foreign deferred tax assets, our provision for income taxes will primarily consist of federal and state current income taxes and income taxes in certain foreign jurisdictions. Furthermore, we do not incur expense or benefit in certain tax free jurisdictions in which we operate.

Liquidity and Capital Resources

As of September 30, 2016, we had cash and cash equivalents of \$56.1 million, short and long-term investments of \$54.2 million, and net accounts receivable of \$49.7 million.

Our primary uses of cash are to fund operating expenses, purchases of inventory and the acquisition of businesses, property and equipment and intangible assets, and is impacted by the timing of when we pay these expenses as reflected in the change in our outstanding accounts payable and accrued expenses. Cash used to fund operating expenses in our consolidated statements of cash flows excludes the impact of non-cash items such as stock-based compensation and amortization and depreciation of acquired intangible assets, step-ups of acquired inventory to fair value.

Our primary sources of cash are cash receipts on accounts receivable from our shipment of products to distributors and direct customers. Aside from the growth in amounts billed to our customers, net cash collections of accounts receivable are impacted by the efficiency of our cash collections process, which can vary from period to period depending on the payment cycles of our major distributor customers.

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

	September 30, 2016	December 31, 2015
	(in thousands)	
Working capital	\$132,353	\$134,170
Cash and cash equivalents	\$56,076	\$67,956
Short-term investments	42,146	43,300
Long-term investments	12,020	19,242
Total cash and cash equivalents and investments	\$110,242	\$130,498

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

	Nine Months Ended September 30, 2016		2015
	(in thousands)		
Net cash provided by operating activities	\$89,714	\$30,483	
Net cash provided by (used in) investing activities	(99,770)	) 6,633	
Net cash provided by (used in) financing activities	(1,737)	) 1,012	

Edgar Filing: MAXLINEAR INC - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	(87 )	(675 )
Net increase (decrease) in cash and cash equivalents	\$(11,880)	\$37,453

38

---

Table of Contents

Cash Flows from Operating Activities

Net cash provided by operating activities was \$89.7 million for the nine months ended September 30, 2016. Net cash provided by operating activities primarily consisted of net income of \$52.9 million, \$34.1 million in non-cash operating expenses, less \$2.6 million in changes in operating assets and liabilities. Non-cash items included in net income for the nine months ended September 30, 2016 primarily consisted of depreciation and amortization of property, equipment and acquired intangible assets of \$18.7 million, stock-based compensation of \$16.5 million, and amortization of step up to fair value of acquired inventory of \$3.0 million from the wireless infrastructure access and backhaul businesses, partially offset by excess tax benefits on stock-based awards of \$6.0 million included in the income tax provision due to the adoption of ASU No. 2016-09.

Net cash provided by operating activities was \$30.5 million for the nine months ended September 30, 2015. Net cash provided by operating activities for this period primarily consisted of net positive cash flow from adding back \$65.2 million in non-cash operating expenses to net loss of \$33.8 million, partially offset by changes in operating assets and liabilities of \$0.9 million. Non-cash items included in net loss for the nine months ended September 30, 2015 primarily included depreciation and amortization expense of property, equipment and acquired intangible assets of \$31.2 million, amortization of inventory step-up to fair value of acquired Entropic inventory of \$14.2 million, stock-based compensation of \$15.1 million and impairment of lease of \$6.2 million, partially offset by deferred income taxes of \$1.7 million.

Cash Flows from Investing Activities

Net cash used in investing activities was \$99.8 million for the nine months ended September 30, 2016. Net cash used in investing activities consisted primarily of \$80.3 million in purchases of securities, \$101.0 million for the purchase of the wireless infrastructure access business and wireless infrastructure backhaul business, and \$6.8 million in purchases of property and equipment, partially offset by \$88.7 million in maturities of securities.

Net cash provided by investing activities was \$6.6 million for the nine months ended September 30, 2015. Net cash provided by investing activities consisted of \$57.5 million in maturities of securities, partially offset by \$3.6 million cash used our acquisition of Entropic, \$45.7 million in purchases of securities and \$1.5 million in purchases of property and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities was \$1.7 million for the nine months ended September 30, 2016, and consisted primarily of \$6.2 million in minimum tax withholding paid on behalf of employees for restricted stock units, partially offset by \$4.5 million in net proceeds from issuance of common stock.

Net cash provided by financing activities was \$1.0 million for the nine months ended September 30, 2015, and consisted primarily of \$6.3 million in net proceeds from issuance of common stock, partially offset by \$4.5 million in minimum tax withholding paid on behalf of employees for restricted stock units, equity issuance costs of \$0.7 million and repurchases of common stock of \$0.1 million.

We believe that our \$56.1 million of cash and cash equivalents and \$54.2 million in short and long-term investments at September 30, 2016 will be sufficient to fund our projected operating requirements for at least the next twelve months. On July 1, 2016, we used \$80.0 million of cash to purchase the wireless infrastructure backhaul business of Broadcom. Our cash and cash equivalents in recent years have been favorably affected by our Entropic acquisition and our implementation of an equity-based bonus program for our employees, including executives. In connection with that bonus program, in August 2016, we issued 0.2 million freely-tradable shares of our Class A common stock in settlement of bonus awards for the January 1, 2016 to June 30, 2016 performance period. In May 2016, we issued 0.2 million shares of our Class A common stock in settlement of bonus awards for the July 1, 2015 to December 31, 2015 performance period. In August 2015, we issued 0.3 million shares of our Class A common stock in settlement of bonus awards for the January 1, 2015 to June 30, 2015 performance period under our bonus plan. In May 2015, we issued 0.2 million freely-tradable shares of our Class A common stock in settlement of bonus awards for the fiscal 2014 performance period under our bonus plan.

Notwithstanding the foregoing, we may need to raise additional capital or incur additional indebtedness to fund strategic initiatives or operating activities, particularly if we continue to pursue acquisitions. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our engineering, sales and marketing activities, the timing and extent of our expansion into new territories, the timing of introductions of new products and enhancements to existing products, the continuing market acceptance of our products and potential material investments in, or acquisitions of, complementary businesses, services or technologies. Additional funds may not be available on terms favorable to us or at all. If we are unable to raise additional funds when needed, we may not be able to sustain our operations.

Table of Contents

## Warranties and Indemnifications

In connection with the sale of products in the ordinary course of business, we often make representations affirming, among other things, that our products do not infringe on the intellectual property rights of others, and agree to indemnify customers against third-party claims for such infringement. Further, our certificate of incorporation and bylaws require us to indemnify our officers and directors against any action that may arise out of their services in that capacity, and we have also entered into indemnification agreements with respect to all of our directors and certain controlling persons.

## Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, or SPEs, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of September 30, 2016, we were not involved in any unconsolidated SPE transactions.

## Contractual Obligations

As of September 30, 2016, future minimum payments under non-cancelable operating leases, other obligations, and inventory purchase obligations are as follows:

	Operating Leases	Other Obligations	Inventory Purchase Obligations	Total
	(in thousands)			
2016 (three months)	\$2,418	\$ 3,574	\$ 15,284	\$21,276
2017	8,240	4,889	—	13,129
2018	6,443	859	—	7,302
2019	6,232	14	—	6,246
2020	6,516	—	—	6,516
Thereafter	7,976	—	—	7,976
Total minimum payments	\$37,825	\$ 9,336	\$ 15,284	\$62,445

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

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

Interest Rate Risk

We had cash and cash equivalents of \$56.1 million at September 30, 2016 which was held for working capital purposes. We do not enter into investments for trading or speculative purposes. We do not believe that we have any material exposure to changes in the fair value of our investments as a result of changes in interest rates due to their short-term nature. Declines in interest rates, however, will reduce future investment income.

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

Investments Risk

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

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and no evaluation of controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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

Changes in Internal Control over Financial Reporting

An evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, to determine whether any change in our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We did not identify any change in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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, or the District Court Litigation. In its complaint, CrestaTech alleges that we infringe U.S. Patent Nos. 7,075,585, or the '585 Patent, and 7,265,792, or the '792 Patent. In addition to asking for compensatory damages, CrestaTech 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, among others, us, Sharp, Sharp Electronics, and VIZIO, or 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. which are collectively referred to with us, Sharp and VIZIO as the Company Respondents. CrestaTech's ITC complaint alleged 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 Maxlinear's accused products that CrestaTech alleged infringe the same two patents asserted in the Delaware action. Through its ITC complaint, CrestaTech sought 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 sought 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 our television tuners or televisions containing such tuners.

On March 10, 2014, the court stayed the District Court Litigation pending resolution of the ITC Investigation.

On December 15, 2014, the ITC held a trial in the ITC Investigation. On February 27, 2015, the Administrative Law Judge, or the ALJ, issued a written Initial Determination, or 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 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 ITC subsequently issued its opinion, which terminated its investigation. The opinion affirmed the findings of the ALJ 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 ALJ's finding of infringement with respect to the three claims of the '585 Patent that were not held to be invalid.

On November 30, 2015, CrestaTech filed an appeal of the ITC decision with the United States Court of Appeals for the Federal Circuit, or the Federal Circuit. On March 7, 2016, CrestaTech voluntarily dismissed its appeal, resulting in a final determination of the ITC Investigation in our favor.

In addition, we have filed four petitions for inter partes review, or IPR, by the US Patent Office, two for each of the CrestaTech patents asserted against us. The Patent Trial and Appeal Board, or the PTAB, did not institute two of these IPRs as being redundant to IPRs filed by another party that were 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.

In October 2015, the PTAB issued final decisions in two of the six pending IPR proceedings (one for each of the two asserted patents), holding that all of the reviewed claims are unpatentable. Included in these decisions was one of the three claims of the '585 Patent mentioned above in connection with the ITC's final decision. CrestaTech appealed the PTAB's decisions at the Federal Circuit. The parties have completed briefing in this appeal and oral argument is

scheduled for November 2016.

43

---

Table of Contents

In August 2016, the PTAB issued final written decisions in the remaining four pending IPR proceedings (two for each of the asserted patents), holding that many of the reviewed claims - including the two remaining claims of the '585 Patent which the ITC held were infringed - are unpatentable. As a result of these IPR decisions, all 13 claims that CrestaTech asserted against us in the ITC Investigation have been found to be unpatentable by the PTAB. The parties have filed notices to appeal the two decisions related to the '585 Patent. CrestaTech, however, did not appeal the PTAB's rulings related to the '792 Patent.

On March 18, 2016, CrestaTech filed a petition for Chapter 7 bankruptcy in the Northern District of California. As a result of this proceeding, all rights in the CrestaTech asserted patents, including the right to control the pending litigation, were assigned to CF Crespe LLC, or CF Crespe. CF Crespe is now the named party in the pending IPRs, the Federal Circuit appeal and District Court Litigation. CF Crespe has not sought to lift the stay in the District Court Litigation given the resolution of the ITC Investigation.

We cannot predict the outcome of any appeal by CrestaTech, the District Court Litigation, or the IPRs. Any adverse determination in the District Court Litigation could have a material adverse effect on our business and operating results.

**Trango Systems, Inc. Litigation**

On or about August 2, 2016, Trango Systems, Inc., or Trango, filed a complaint in the Superior Court of California, County of San Diego, Central Division, against defendants Broadcom Corporation, Inc., or Broadcom, and us, collectively, Defendants. Trango is a purchaser that alleges fraud, negligent misrepresentation, breach of contract, intentional interference with economic relations, negligent interference with economic relations, intentional interference with prospective economic relations, negligent interference with prospective economic relations, unlawful and unfair business acts and practices, and aiding and abetting, in connection with the discontinuance of a chip line we recently acquired from Broadcom. Trango seeks unspecified general and special damages, pre-judgment interest, expenses and costs, statutory penalties, attorneys' fees, punitive damages, and an assignment of intellectual property rights. On or about September 1, 2016 Trango filed its first amended complaint, which contains the same causes of action. We intend to vigorously defend against the lawsuit. On October 4, 2016, we filed our demurrer to each cause of action in the first amended complaint.

On or about October 14, 2016, Trango filed a new complaint in a separate action against defendants. The new complaint is nearly identical to the first amended complaint in the initial action. Trango has not yet attempted to serve us with the new complaint.

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

**Other Matters**

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

Table of Contents

## ITEM 1A. RISK FACTORS

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

Before you invest in our securities, you should be aware that our business faces numerous financial and market risks, including those described below, as well as general economic and business risks. The following discussion provides information concerning the material risks and uncertainties that we have identified and believe may adversely affect our business, our financial condition and our results of operations. In addition to the other information set forth in this report, you should also consider the risk factors discussed in our Annual Report on Form 10-K, which we filed with the SEC on February 17, 2016, as amended by Amendment No. 1 on Form 10-K/A filed with the SEC on April 28, 2016, or Annual Report, together with all of the other information included in this Quarterly Report on Form 10-Q, the Annual Report, and in our other public filings, which could materially affect our business, financial condition or future results.

For the risks relating to our recent acquisitions, please refer to the section of these risk factors captioned “Risks Relating to Our Recent Acquisitions.”

**Risks Related to Our Business**

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

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

As our products are integrated into a variety of electronic devices, we compete with suppliers of traditional silicon RF receivers, with providers of physical medium devices for optical interconnect markets, and with providers of modems and transceivers into various communications infrastructure markets. Our competitors range from large, international companies offering a wide range of semiconductor products to smaller companies specializing in narrow markets and internal engineering groups within television, set-top box, data modems and gateway, satellite low-noise blocker, optical module, and wired and wireless communications infrastructure equipment manufacturers, some of which may be our customers. Our primary competitors include Silicon Labs, NXP B.V., RDA Microelectronics, Inc., Broadcom Ltd (recently created through the merger of Broadcom Corporation and Avago Technologies Limited), Rafael Microelectronics, Inc., Inphi Corporation, M/A-COM Technology Solutions Holdings, Inc., Semtech Corporation, Qorvo Inc., Microsemi Corporation (which recently acquired PMC-Sierra, Inc.), and Analog Devices. It is quite likely that competition in the markets in which we participate will increase in the future as existing competitors improve or expand their product offerings. In addition, it is quite likely that a number of other public and private companies are in

the process of developing competing products for digital television and other broadband communication applications. Because our products often are building block semiconductors which provide functions that in some cases can be integrated into more complex integrated circuits, we also face competition from manufacturers of integrated circuits, some of which may be existing customers or platform partners that develop their own integrated circuit products. If we cannot offer an attractive solution for applications where our competitors offer more fully integrated tuner/demodulator/video processing products, we may lose significant market share to our competitors. Certain of our competitors have fully-integrated

Table of Contents

tuner/demodulator/video processing solutions targeting high performance cable, satellite, or DTV applications, and thereby potentially provide customers with smaller and cheaper solutions. Some of our targeted customers for our wired and wireless communications infrastructure solutions are vertically integrated module or systems manufacturers, where we compete with internally supplied components.

Our ability to compete successfully depends on factors both within and outside of our control, including industry and general economic trends. During past periods of downturns in our industry, competition in the markets in which we operate intensified as manufacturers of semiconductors reduced prices in order to combat production overcapacity and high inventory levels. Many of our competitors have substantially greater financial and other resources with which to withstand similar adverse economic or market conditions in the future. Moreover, the competitive landscape is changing as a result of consolidation within our industry as some of our competitors have merged with or been acquired by other competitors, and other competitors have begun to collaborate with each other. These developments may materially and adversely affect our current and future target markets and our ability to compete successfully in those markets.

We depend on a limited number of customers, that have undergone or are subject to pending consolidation and who themselves are dependent on a consolidating set of service provider customers, for a substantial portion of our revenue, and the loss of, or a significant reduction in orders from one or more of our major customers could have a material adverse effect on our revenue and operating results.

For fiscal 2015, two customers accounted for 41% of our net revenue, and our ten largest customers accounted for 76% of our net revenue. For the nine months ended September 30, 2016, two customers accounted for 38% of our net revenue, and our ten largest customers accounted for 77% of our net revenue. We expect that our operating results for the foreseeable future will continue to show a substantial but declining percentage of sales dependent on a relatively small number of customers and on the ability of these customers to sell products that incorporate our RF receivers or RF receiver SoCs, digital STB video SoCs, DBS ODU, and MoCA® connectivity solutions. In the future, these customers may decide not to purchase our products at all, may purchase fewer products than they did in the past, or may defer or cancel purchases or otherwise alter their purchasing patterns. Factors that could affect our revenue from these large customers include the following:

- substantially all of our sales to date have been made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty;
- some of our customers have sought or are seeking relationships with current or potential competitors which may affect their purchasing decisions; and

service provider and OEM consolidation across cable, satellite, and fiber markets could result in significant changes to our customers' technology development and deployment priorities and roadmaps, which could affect our ability to forecast demand accurately and could lead to increased volatility in our business.

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

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

A significant portion of our revenue is attributable to demand for our products in markets for broadband and pay-TV operator applications, and development delays and consolidation trends among cable and satellite television operators could adversely affect our future revenues and operating results.

In the three and nine months ended September 30, 2016, revenue directly attributable to operator applications accounted for approximately 76% and 75%, respectively, of our net revenue. Delays in the development of, or unexpected developments in the operator applications markets could have an adverse effect on order activity by

manufacturers in these markets and, as a result, on our business, revenue, operating results and financial condition. In addition, consolidation trends among television operators may continue, which could have a material adverse effect on our future operating results and financial condition. In particular, we

Table of Contents

expect that the acquisition of Time Warner Cable by Charter Communications, could create additional revenue uncertainty or adversely affect our legacy video SoC revenues.

If we fail to penetrate new markets, specifically the market for satellite set-top and gateway boxes and outdoor units, our revenue, revenue growth rate, if any, and financial condition could be materially and adversely affected.

Currently, we sell most of our products to manufacturers of televisions, terrestrial set-top boxes for sale in various markets worldwide, cable broadband voice and data modems and gateways, pay-TV set-top boxes and gateways into cable and satellite operator markets, satellite outdoor units or LNB's, optical modules for long-haul and metro telecommunications markets, and RF transceivers and modem solutions for wireless infrastructure markets. Our future revenue growth, if any, will depend in part on our ability to further penetrate into, and expand beyond, these markets with analog and mixed-signal solutions targeting the markets for high-speed optical interconnects for datacenter, metro, and long-haul optical modules, telecommunications wireless infrastructure, and cable DOCSIS 3.1 network infrastructure products. Each of these markets presents distinct and substantial risks. If any of these markets do not develop as we currently anticipate, or if we are unable to penetrate them successfully, it could materially and adversely affect our revenue and revenue growth rate, if any.

Broadband data modems and gateways and pay-TV and satellite set-top boxes and video gateways continue to represent our largest North American and European revenue generator. The North American and European pay-TV market is dominated by only a few OEMs, including Cisco Systems, Inc. (whose connected devices business was acquired by Technicolor in November 2015), Arris Group, Inc. (includes Pace plc acquired by Arris Group, Inc. in January 2016), Humax Co., Ltd., Samsung Electronics Co., Ltd., and Technicolor S.A. These OEMs are large multinational corporations with substantial negotiating power relative to us and are undergoing significant consolidation. Securing design wins with any of these companies requires a substantial investment of our time and resources. Even if we succeed, additional testing and operational certifications will be required by the OEMs' customers, which include large pay-TV television companies such as Comcast Corporation, Liberty Global plc, Time Warner Cable Inc., AT&T, and EchoStar Corporation. In addition, our products will need to be compatible with other components in our customers' designs, including components produced by our competitors or potential competitors. There can be no assurance that these other companies will support or continue to support our products.

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

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

The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. Many of our products originated with our research and development efforts and we believe have provided us with a significant competitive advantage. In the three and nine months ended September 30, 2016, our research and development expense was \$25.9 million and \$73.7 million, respectively. We continued to maintain or increase our research and development expenditures as part of our strategy of devoting focused research and development efforts on the development of innovative and sustainable product platforms. We are committed to investing in new product development internally in order to stay competitive in our markets and plan to maintain research and development and design capabilities for new solutions in advanced semiconductor process nodes such as 28nm and 16nm and beyond. We do not know whether we will have sufficient resources to maintain the level of investment in research and development required to remain competitive as semiconductor process nodes continue to shrink and become increasingly complex. In addition, we cannot assure you that the technologies which are the focus of our research and development expenditures will become commercially successful.

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

We have been experiencing significant growth in a short period of time. Our net revenue increased from approximately \$119.6 million in 2013, to \$133.1 million in 2014 and \$300.4 million in 2015. We may not achieve similar growth rates in future periods, particularly our growth rate between 2014 and 2015 which was largely attributable to our acquisition of Entropic, which included in particular legacy analog ODU and video-SoC products



that are near the end of their product life cycles. You should not rely on our operating results for any prior quarterly or annual periods as an indication of our future operating performance. If we are unable to maintain adequate revenue growth, our financial results could suffer and our stock price could decline.

Table of Contents

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

- recruit, hire, train and manage additional qualified engineers for our research and development activities, especially in the positions of design engineering, product and test engineering and applications engineering;
- add sales personnel and expand customer engineering support offices;
- implement and improve our administrative, financial and operational systems, procedures and controls; and
- enhance our information technology support for enterprise resource planning and design engineering by adapting and expanding our systems and tool capabilities, and properly training new hires as to their use.

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

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

In addition to the acquisition of the wireless infrastructure backhaul business of Broadcom Corporation, which we completed in the third quarter of fiscal 2016, we also acquired the wireless infrastructure access business of Microsemi Storage Solutions, Inc., formerly known as PMC-Sierra, Inc., which we completed in the second quarter of fiscal 2016, Entropic Communications, Inc., which we completed in the second quarter of fiscal 2015, and Physpeed, Co., Ltd., which we completed in the fourth quarter of fiscal 2014, we may, from time to time, make acquisitions, enter into alliances or make investments in other businesses to complement our existing product offerings, augment our market coverage or enhance our technological capabilities. However, any such transactions could result in:

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

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

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

Table of Contents

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

On or about August 2, 2016, Trango Systems, Inc., or Trango, filed a complaint in the Superior Court of California, County of San Diego, Central Division, against defendants Broadcom Corporation, Inc., or Broadcom, and us, collectively, Defendants. Trango is a purchaser that alleges fraud, negligent misrepresentation, breach of contract, intentional interference with economic relations, negligent interference with economic relations, intentional interference with prospective economic relations, negligent interference with prospective economic relations, unlawful and unfair business acts and practices, and aiding and abetting, in connection with the discontinuance of a chip line we recently acquired from Broadcom. Trango seeks unspecified general and special damages, pre-judgment interest, expenses and costs, statutory penalties, attorneys' fees, punitive damages, and an assignment of intellectual property rights. On or about September 1, 2016, Trango filed its first amended complaint, which contains the same causes of action. We intend to vigorously defend against the lawsuit. On October 4, 2016, we filed its demurrer to each cause of action in the first amended complaint.

On or about October 14, 2016, Trango filed a new complaint in a separate action against Defendants. The new complaint is nearly identical to the first amended complaint in the initial action. Trango has not yet attempted to serve us with the new complaint.

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

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

Highly complex products like our broadband RF receivers and RF receiver SoCs, physical medium devices for optical modules, and RF transceiver and modem solutions for wireless infrastructure markets may contain defects and bugs when they are first introduced or as new versions are released. We have previously experienced, and may in the future experience, defects and bugs and, in particular, have identified liabilities of several million dollars arising from warranty claims related to legacy Entropic products. Where any of our products, including legacy acquired products, contain defects or bugs, or have reliability, quality or compatibility problems, we may not be able to successfully correct these problems. Consequently, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers and attract new customers, and our financial results. In addition, these defects or bugs could interrupt or delay sales to our customers. If any of these problems are not found until after we have commenced commercial production of a new product (as in the case of the legacy Entropic products experiencing warranty claims), we may be required to incur additional development costs and product recall, repair or replacement costs, and our operating costs could be adversely



Table of Contents

affected. These problems may also result in warranty or product liability claims against us by our customers or others that may require us to make significant expenditures to defend these claims or pay damage awards. In the event of a warranty claim, we may also incur costs if we compensate the affected customer. We maintain product liability insurance, but this insurance is limited in amount and subject to significant deductibles. There is no guarantee that our insurance will be available or adequate to protect against all claims. We also may incur costs and expenses relating to a recall of one of our customers' products containing one of our devices. The process of identifying a recalled product in devices that have been widely distributed may be lengthy and require significant resources, and we may incur significant replacement costs, contract damage claims from our customers and reputational harm. Costs or payments made in connection with warranty and product liability claims and product recalls could materially affect our financial condition and results of operations.

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

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

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

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

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

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

The semiconductor industry is characterized by companies that hold large numbers of patents and other intellectual property rights and that vigorously pursue, protect and enforce intellectual property rights. Third parties have in the past and may in the future assert against us and our customers and distributors their patent and other intellectual

property rights to technologies that are important to our business. In particular, from time to time, we receive correspondence from competitors seeking to engage us in discussions concerning potential claims against us, and we receive correspondence from customers seeking indemnification for potential claims related to infringement claims asserted against down-stream users of our products. We investigate these requests as received and could be required to enter license agreements with respect to third party

Table of Contents

intellectual property rights or indemnify third parties, either of which could have an adverse effect on our future operating results.

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, or the District Court Litigation. In its complaint, CrestaTech alleges that we infringe U.S. Patent Nos. 7,075,585, or the '585 Patent, and 7,265,792, or the '792 Patent. In addition to asking for compensatory damages, CrestaTech 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, among others, us, Sharp, Sharp Electronics, and VIZIO, or 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. which are collectively referred to with us, Sharp and VIZIO as the Company Respondents. CrestaTech's ITC complaint alleged 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 Maxlinear's accused products that CrestaTech alleged infringe the same two patents asserted in the Delaware action. Through its ITC complaint, CrestaTech sought 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 sought 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 our television tuners or televisions containing such tuners.

On March 10, 2014, the court stayed the District Court Litigation pending resolution of the ITC Investigation.

On December 15, 2014, the ITC held a trial in the ITC Investigation. On February 27, 2015, the Administrative Law Judge, or the ALJ, issued a written Initial Determination, or ID, ruling that MaxLinear, Sharp, Sharp Electronics, and VIZIO did not violate 19 U.S.C § 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 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 ITC subsequently issued its opinion, which terminated its investigation. The opinion affirmed the findings of the ALJ 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 ALJ's finding of infringement with respect to the three claims of the '585 Patent that were not held to be invalid.

On November 30, 2015, CrestaTech filed an appeal of the ITC decision with the United States Court of Appeals for the Federal Circuit, or the Federal Circuit. On March 7, 2016, CrestaTech voluntarily dismissed its appeal, resulting in a final determination of the ITC Investigation in our favor.

In addition, we have filed four petitions for inter partes review, or IPR, by the US Patent Office, two for each of the CrestaTech patents asserted against us. The Patent Trial and Appeal Board, or the PTAB, did not institute two of these IPRs as being redundant to IPRs filed by another party that were 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.

In October 2015, the PTAB issued final decisions in two of the six pending IPR proceedings (one for each of the two asserted patents), holding that all of the reviewed claims are unpatentable. Included in these decisions was one of the three claims of the '585 Patent mentioned above in connection with the ITC's final decision. CrestaTech appealed the PTAB's decisions at the Federal Circuit. The parties have completed briefing in this appeal and oral argument is scheduled for November 2016. In August 2016, the PTAB issued final written decisions in the remaining four pending IPR proceedings (two for each of the asserted patents), holding that many of the reviewed claims - including the two

remaining claims of the '585 Patent which the ITC held were infringed - are unpatentable. As a result of these IPR decisions, all 13 claims that CrestaTech asserted against us in the ITC Investigation have been found to be unpatentable by the PTAB. The parties have filed notices to

51

---



Table of Contents

appeal the two decisions related to the '585 Patent. CrestaTech, however, did not appeal the PTAB's rulings related to the '792 Patent.

On March 18, 2016, CrestaTech filed a petition for Chapter 7 bankruptcy in the Northern District of California. As a result of this proceeding, all rights in the CrestaTech asserted patents, including the right to control the pending litigation, were assigned to CF Crespe LLC, or CF Crespe. CF Crespe is now the named party in the pending IPRs, the Federal Circuit appeal and District Court Litigation. CF Crespe has not sought to lift the stay in the District Court Litigation given the resolution of the ITC Investigation.

We cannot predict the outcome of any appeal by CrestaTech, the District Court Litigation, or the IPRs. Any adverse determination in the District Court Litigation could have a material adverse effect on our business and operating results.

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

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

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

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

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

- any of our present or future patents or patent claims will not lapse or be invalidated, circumvented, challenged or abandoned;

- our intellectual property rights will provide competitive advantages to us;
- our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties;
- any of our pending or future patent applications will be issued or have the coverage originally sought;
- our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak;

Table of Contents

any of the trademarks, copyrights, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned; or we will not lose the ability to assert our intellectual property rights against or to license our technology to others and collect royalties or other payments.

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

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

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

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

When we settled a trademark dispute with Linear Technology Corporation, we agreed not to register the “MAXLINEAR” mark or any other marks containing the term “LINEAR”. We may continue to use “MAXLINEAR” as a corporate identifier, including to advertise our products and services, but may not use that mark on our products. The agreement does not affect our ability to use our registered trademark “MxL”, which we use on our products. Due to our agreement not to register the “MAXLINEAR” mark, our ability to effectively prevent third parties from using the “MAXLINEAR” mark in connection with similar products or technology may be affected. If we are unable to protect our trademarks, we may experience difficulties in achieving and maintaining brand recognition and customer loyalty. Our business, revenue and revenue growth, if any, will depend in part on the timing and development of the global transition from analog to digital television, which is subject to numerous regulatory and business risks outside our control.

In the nine months ended September 30, 2016, sales of our RF receiver products used in digital terrestrial television applications, or DTT, including digital televisions, terrestrial set-top boxes, and terrestrial receivers in satellite video gateways represented a declining, but not insignificant, portion of our revenues. We expect a declining but not insignificant portion of our revenue in future periods to continue to depend on the demand for DTT applications. In contrast to the United States, where the transition from analog to digital television occurred on a national basis in June 2009, in Europe and other parts of the world, the digital transition is being phased in on a local and regional basis and is expected to occur over many years. Many countries in Eastern Europe and Latin America are expected to convert to digital television by the end of 2018, with other countries targeting dates as late as 2024. As a result, our future revenue will depend in part on government mandates requiring conversion from analog to digital television and on the

timing and implementation of those mandates. If the ongoing global transition to digital TV standards does not continue to progress or experiences significant delays, our business, revenue, operating results and financial condition would be materially and adversely affected. If during the transition to digital TV standards, consumers disproportionately purchase TV's with digital or hybrid tuning capabilities, this could diminish the size of the market for our digital-to-analog converter set-top box solutions, and as result our business, revenue, operating results and financial condition would be materially and adversely affected.

Table of Contents

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

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

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

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

• capacity shortages during periods of high demand;

• reduced control over delivery schedules and quality;

• shortages of materials;

• misappropriation of our intellectual property;

• limited warranties on wafers or products supplied to us; and

• potential increases in prices.

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

Additionally, our manufacturing capacity may be similarly reduced or eliminated at one or more facilities due to the fact that our fabrication and assembly and test contractors are all located in the Pacific Rim region, principally in China, Taiwan, Singapore and Malaysia. The risk of earthquakes in these geographies is significant due to the proximity of major earthquake fault lines, and Taiwan in particular is also subject to typhoons and other Pacific storms. Earthquakes, fire, flooding, or other natural disasters in Taiwan or the Pacific Rim region, or political unrest, war, labor strikes, work stoppages or public health crises, such as outbreaks of H1N1 flu, in countries where our contractors' facilities are located could result in the disruption of our foundry, assembly or test capacity. Any disruption resulting from these events could cause significant delays in shipments of our products until we are able to shift our manufacturing, assembly or test from the affected contractor to another third-party vendor. There can be no assurance that alternative capacity could be obtained on favorable terms, if at all.

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

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

Such a transition would likely require a qualification process by our customers

54

---

Table of Contents

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

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

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

Our recent operating history has focused on developing integrated circuits for specific terrestrial, cable and satellite television, and broadband voice and data applications, and as part of our strategy, we seek to expand our addressable market into new product categories. For example, we have recently expanded into the market for satellite set-top and gateway boxes and outdoor units and physical medium devices for the optical interconnect markets, and through the Broadcom and Microsemi business line acquisitions have entered the markets for wireless telecommunications infrastructure and cable network infrastructure. Our limited operating experience in these new markets or potential markets we may enter, combined with the rapidly evolving nature of our markets in general, substantial uncertainty concerning how these markets may develop and other factors beyond our control, reduces our ability to accurately forecast quarterly or annual revenue. We are currently expanding our staffing and increasing our expense levels in anticipation of future revenue growth. If our revenue does not increase as anticipated, we could incur significant losses due to our higher expense levels if we are not able to decrease our expenses in a timely manner to offset any shortfall in future revenue.

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

Our future success depends on our ability to retain, attract and motivate qualified personnel, including our management, sales and marketing and finance, and especially our design and technical personnel. We do not know whether we will be able to retain all of these personnel as we continue to pursue our business strategy. Historically, we have encountered difficulties in hiring and retaining qualified engineers because there is a limited pool of engineers with the expertise required in our field. Competition for these personnel is intense in the semiconductor industry. As the source of our technological and product innovations, our design and technical personnel represent a significant asset. The loss of the services of one or more of our key employees, especially our key design and technical personnel, or our inability to retain, attract and motivate qualified design and technical personnel, could have a material adverse effect on our business, financial condition and results of operations.

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

Our success depends, in large part, on the continued contributions of our senior management team. None of our senior management team is bound by written employment contracts to remain with us for a specified period. In addition, we have not entered into non-compete agreements with members of our senior management team. The loss of any member of our senior management team could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate.

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

Prior to purchasing our products, our customers require that both our products and our third-party contractors undergo extensive qualification processes, which involve testing of the products in the customer's system and rigorous

reliability testing. This qualification process may continue for six months or more. However, qualification of a product by a customer does not assure any sales of the product to that customer. Even after successful qualification and sales of a product to a customer, a subsequent revision to the RF receiver or RF receiver SoC, physical medium devices for optical modules, and RF transceivers and modem for wireless telecommunications infrastructure, or changes in our customer's manufacturing process or our

Table of Contents

selection of a new supplier may require a new qualification process, which may result in delays and in us holding excess or obsolete inventory. After our products are qualified, it can take six months or more before the customer commences volume production of components or devices that incorporate our products. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, to qualifying our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, sales of this product to the customer may be precluded or delayed, which may impede our growth and cause our business to suffer.

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

We currently sell a significant portion of our products to customers through our distributors, who maintain their own inventories of our products. For the nine months ended September 30, 2016, sales through distributors accounted for 18% of our net revenue. 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 to 60 day terms. On shipments to our distributors where revenue is not recognized, we record 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 record 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 our distributors may result in the realization of a different amount of profit included our future consolidated statements of operations than the amount recorded as deferred profit in our consolidated balance sheets.

If our distributors are unable to sell an adequate amount of their inventories of our products in a given quarter to manufacturers and end users or if they decide to decrease their inventories of our products for any reason, our sales through these distributors and our revenue may decline. In addition, if some distributors decide to purchase more of our products than are required to satisfy end customer demand in any particular quarter, inventories at these distributors would grow in that quarter. These distributors likely would reduce future orders until inventory levels realign with end customer demand, which could adversely affect our product revenue in a subsequent quarter. Our reserve estimates with respect to the products stocked by our distributors are based principally on reports provided to us by our distributors, typically on a weekly basis. To the extent that this resale and channel inventory data is inaccurate or not received in a timely manner, we may not be able to make reserve estimates for future periods accurately or at all.

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



were unavailable, we could forego revenue opportunities, potentially lose market share and damage our customer relationships. In addition, any significant future cancellations or deferrals of product orders or the return of previously sold products due to manufacturing defects could materially and adversely impact our profit margins, increase our write-offs due to product obsolescence and restrict our ability to fund our operations.

Table of Contents

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

We are focused on securing design wins to develop RF receivers and RF receiver SoCs, MoCA SoCs, DBS-ODU SoCs, physical medium devices for optical modules, and SoC solutions targeting infrastructure opportunities within the telecommunications, wireless, and cable operator markets for use in our customers' products. These selection processes typically are lengthy and can require us to incur significant design and development expenditures and dedicate scarce engineering resources in pursuit of a single customer opportunity. We may not win the competitive selection process and may never generate any revenue despite incurring significant design and development expenditures. These risks are exacerbated by the fact that some of our customers' products likely will have short life cycles. Failure to obtain a design win could prevent us from offering an entire generation of a product, even though this has not occurred to date. This could cause us to lose revenue and require us to write off obsolete inventory, and could weaken our position in future competitive selection processes. After securing a design win, we may experience delays in generating revenue from our products as a result of the lengthy development cycle typically required. Our customers generally take a considerable amount of time to evaluate our products. The typical time from early engagement by our sales force to actual product introduction runs from nine to twelve months for the consumer market, to as much as 36 months or more for the cable operator and telecommunications infrastructure markets. The delays inherent in these lengthy sales cycles increase the risk that a customer will decide to cancel, curtail, reduce or delay its product plans, causing us to lose anticipated sales. In addition, any delay or cancellation of a customer's plans could materially and adversely affect our financial results, as we may have incurred significant expense and generated no revenue. Finally, our customers' failure to successfully market and sell their products could reduce demand for our products and materially and adversely affect our business, financial condition and results of operations. If we were unable to generate revenue after incurring substantial expenses to develop any of our products, our business would suffer.

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

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

- changes in end-user demand for the products manufactured and sold by our customers;
- the receipt, reduction or cancellation of significant orders by customers;
- fluctuations in the levels of component inventories held by our customers;
- the gain or loss of significant customers;
- market acceptance of our products and our customers' products;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- the timing and extent of product development costs;
- new product announcements and introductions by us or our competitors;
- incurrence of research and development and related new product expenditures;
- seasonality or cyclical fluctuations in our markets;
- currency fluctuations;
- fluctuations in IC manufacturing yields;
- significant warranty claims, including those not covered by our suppliers;
- changes in our product mix or customer mix;
- intellectual property disputes;

## Table of Contents

- loss of key personnel or the shortage of available skilled workers;
- impairment of long-lived assets, including masks and production equipment; and
- the effects of competitive pricing pressures, including decreases in average selling prices of our products.

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

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

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

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

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

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

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

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

under its agreement with us. Any failure of our corporate infrastructure could have a material adverse effect on our business, financial condition and results of operations. Upon expiration or termination of any of our agreements with third-party vendors, we may not be able to replace the services provided to us in a timely manner or on terms and conditions, including

58

---

Table of Contents

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

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

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

Since we operate in different countries and are subject to taxation in different jurisdictions, our future effective tax rates could be impacted by changes in such countries' tax laws or their interpretations or accounting principles generally accepted in those jurisdictions. Both domestic and international tax laws are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulation and court rulings. The application of these tax laws and related regulations is subject to legal and factual interpretation, judgment and uncertainty. We cannot determine whether any legislative proposals may be enacted into law or what, if any, changes may be made to such proposals prior to their being enacted into law. If U.S. or international tax laws change in a manner that increases our tax obligation, it could result in a material adverse impact on our net income and our financial position. We adopted amendments to U.S. generally accepted accounting principles related to stock-based compensation in the second quarter of 2016 and included excess tax benefits associated with employee stock-based compensation in income tax expense, which reduced our income tax expense for the three and nine months ended September 30, 2016 by \$0.9 million and \$6.0 million, respectively. However, since the amount of such excess tax benefits and deficiencies depend on the fair market value of our common stock, our income tax provision is now subject to volatility in our stock price and in the future, could unfavorably affect our future effective tax rate.

We are currently under examination in India for the 2014 and 2015 tax years. We are not currently under any other tax examinations, but we are still subject to examination in various jurisdictions. In the event we are determined to have any unaccrued tax obligation arising from future audits, our operating results would be adversely affected.

Our future effective tax rate could be unfavorably affected by unanticipated changes in the valuation of our deferred tax assets and liabilities, and the ultimate use and depletion of these various tax credits and net operating loss carryforwards. Changes in our effective tax rate could have a material adverse impact on our results of operations. We record a valuation allowance to reduce our net deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and practical tax planning strategies. On a periodic basis we evaluate our deferred tax asset balance for realizability. To the extent we believe it is more likely than not that some portion of our deferred tax assets will not be realized, we will recognize a valuation allowance against the deferred tax asset. Based upon our review of all positive and negative evidence, we concluded that a full valuation allowance should continue to be recorded against our U.S. and certain foreign net deferred tax assets at September 30, 2016. However, as of September 30, 2016, we are now in a three-year U.S. cumulative pre-tax book income position. If we continue to generate taxable income, we could remove some or all of the valuation allowance against federal, California and certain foreign deferred tax assets if we meet the more-likely-than-not threshold. The impact of releasing some or all of such valuation allowance will be material in the period in which such release occurs.

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

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

Table of Contents

These events, together with economic volatility that may face the broader economy and, in particular, the semiconductor and communications industries, may adversely affect, our business, particularly to the extent that consumers decrease their discretionary spending for devices deploying our products.

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

We sell our products throughout the world. Products shipped to Asia accounted for 90% and 92% of our net revenue in the three and nine months ended September 30, 2016, respectively. In addition, as of September 30, 2016, approximately 44% of our employees are located outside of the United States. All of our products are manufactured, assembled and tested in Asia, and all of our major distributors are located in Asia. Multiple factors relating to our international operations and to particular countries in which we operate could have a material adverse effect on our business, financial condition and results of operations. These factors include:

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

In addition to a significant portion of our wafer supply coming from Taiwan, Singapore, China and Malaysia, substantially all of our products undergo packaging and final testing in Taiwan, Singapore, China, South Korea, and the Philippines. Any conflict or uncertainty in these countries, including due to natural disaster or public health or safety concerns, could have a material adverse effect on our business, financial condition and results of operations. In addition, if the government of any country in which our products are manufactured or sold sets technical standards for products manufactured in or imported into their country that are not widely shared, it may lead some of our customers to suspend imports of their products into that country, require manufacturers in that country to manufacture products with different technical standards and disrupt cross-border manufacturing relationships which, in each case, could have a material adverse effect on our business, financial condition and results of operations. We also are subject to risks associated with international political conflicts involving the U.S. government. For example, in 2008, we were instructed by the U.S. Department of Homeland Security to cease using Polar Star International Company Limited, a distributor based in Hong Kong, that delivered third-party products, to a political group that the U.S. government did not believe should have been provided with the products in question. As a result, we immediately ceased all business operations with that distributor. Similarly, we ceased business operations with entities affiliated with ZTE Corp. when the Bureau of Industry and Security at the U.S. Department of Commerce imposed an export licensing requirement, which was subsequently suspended through August 30, 2016. We cannot provide assurances that similar disruptions in the future of distribution arrangements or the imposition of governmental prohibitions on selling our products to

Table of Contents

particular customers will not adversely affect our revenues and operating results. Loss of a key distributor or customer under similar circumstances could have an adverse effect on our business, revenues and operating results.

If we suffer losses to our facilities or distribution system due to catastrophe, our operations could be seriously harmed. Our facilities and distribution system, and those of our third-party contractors, are subject to risk of catastrophic loss due to fire, flood or other natural or man-made disasters. A number of our facilities and those of our contract manufacturers are located in areas with above average seismic activity. The foundries that manufacture all of our wafers are located in Taiwan, Singapore, Malaysia, Southern California and China, and all of the third-party contractors who assemble and test our products also are located in Asia. In addition, our headquarters are located in Southern California. The risk of an earthquake in the Pacific Rim region or Southern California is significant due to the proximity of major earthquake fault lines. For example, in 2002 and 2003, major earthquakes occurred in Taiwan. Any catastrophic loss to any of these facilities would likely disrupt our operations, delay production, shipments and revenue and result in significant expenses to repair or replace the facility.

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

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

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

For example, the SEC adopted a final rule to implement Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires new disclosures concerning the use of conflict minerals, generally tantalum, tin, gold, or tungsten that originated in the Democratic Republic of the Congo or an adjoining country. These disclosures are required whether or not these products containing conflict minerals are manufactured by us or third parties. Verifying the source of any conflict minerals in our products has created and will continue to create additional costs in order to comply with the new disclosure requirements and we may not be able to certify that the metals in our products are conflict free, which may create issues with our customers. In addition, the new rule may affect the pricing, sourcing and availability of minerals used in the manufacture of our products.

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

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

We rely on our information technology systems for the effective operation of our business and for the secure maintenance and storage of confidential data relating to our business and third party businesses. Although we have implemented security controls to protect our information technology systems, experienced programmers or hackers may be able to penetrate our security controls, and develop and deploy viruses, worms and other malicious software programs that compromise our confidential information or that of third parties and cause a disruption or failure of our information technology systems. Any such compromise of our information technology systems could result in the unauthorized publication of our confidential business or proprietary information, result in the unauthorized release of



customer, supplier or employee data, result in a violation of privacy or other laws, expose us to a risk of litigation, or damage our reputation. The cost and operational consequences of implementing further data protection measures either as a response to specific breaches or as a result of evolving risks, could be significant. In addition, our inability to use or access our information systems at critical points in time could adversely affect the timely and efficient operation of our business. Any delayed sales, significant costs or lost customers resulting from these technology failures could adversely affect our business, operations and financial results.

Table of Contents

Third parties with which we conduct business, such as foundries, assembly and test contractors, and distributors, have access to certain portions of our sensitive data. In the event that these third parties do not properly safeguard our data that they hold, security breaches could result and negatively impact our business, operations and financial results. Investor confidence may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002, and as a result, our stock price could decline.

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

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

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

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

Generally, our products comprise only a part of a communications device. All components of these devices must uniformly comply with industry standards in order to operate efficiently together. We depend on companies that provide other components of the devices to support prevailing industry standards. Many of these companies are significantly larger and more influential in driving industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our customers or end users. If larger companies do not support the same industry standards that we do, or if competing standards emerge, market acceptance of our products could be adversely affected, which would harm our business. Products for communications applications are based on industry standards that are continually evolving. Our ability to compete in the future will depend on our ability to identify and ensure compliance with these evolving industry standards. The emergence of new industry standards could render our products incompatible with products developed by other suppliers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards for a significant period of time, we could miss opportunities to achieve crucial design wins. We may not be successful in developing or using new technologies or in developing new products or product enhancements that achieve market acceptance. Our pursuit of necessary technological advances may require substantial time and expense.

**Risks Relating to Our Class A Common Stock**

The dual class structure of our common stock as contained in our charter documents will have the effect of allowing our founders, executive officers, employees and directors and their affiliates to limit your ability to influence corporate matters that you may consider unfavorable.

We sold Class A common stock in our initial public offering. Our founders, executive officers, directors and their affiliates and employees hold shares of our Class B common stock, which is not publicly traded. Until March 29, 2017, the dual class structure of our common stock will have the following effects with respect to the holders of our

Class A common stock:

62

---

Table of Contents

allows the holders of our Class B common stock to have the sole right to elect two management directors to the Board of Directors;

with respect to change of control matters, allows the holders of our Class B common stock to have ten votes per share compared to the holders of our Class A common stock who will have one vote per share on these matters; and with respect to the adoption of or amendments to our equity incentive plans, allows the holders of our Class B common stock to have ten votes per share compared to the holders of our Class A common stock who will have one vote per share on these matters, subject to certain limitations.

Thus, our dual class structure will limit your ability to influence corporate matters, including with respect to transactions involving a change of control, and, as a result, we may take actions that our stockholders do not view as beneficial, which may adversely affect the market price of our Class A common stock. In addition to the additional voting rights granted to holders of our Class B common stock, which is held principally by certain of our executive officers and founders, we have entered change of control agreements with our executive officers, which could have an adverse effect on a third party's willingness to consider acquiring us, either because it may be more difficult to retain key employees with change of control benefits or because of the incremental cost associated with these benefits. The concentration of our capital stock ownership with our founders will limit your ability to influence corporate matters and their interests may differ from other stockholders.

As of September 30, 2016, our founders who are existing employees of MaxLinear, including our Chairman, President and Chief Executive Officer, Dr. Seendripu, together control approximately 10% of our outstanding capital stock, representing approximately 48% of the voting power of our outstanding capital stock with respect to change of control matters and the adoption of or amendment to our equity incentive plans. Dr. Seendripu and the other founders therefore have significant influence over our management and affairs and over all matters requiring stockholder approval, including the election of two Class B directors and significant corporate transactions, such as a merger or other sale of MaxLinear or its assets, for the foreseeable future.

Our management team may use our available cash, cash equivalents, and liquid investment assets in ways with which you may not agree or in ways which may not yield a return.

We use our cash, cash equivalents, and liquid investment assets for general corporate purposes, including working capital. We may also use a portion of these assets to acquire complementary businesses, products, services or technologies. Our management has considerable discretion in the application of our cash, cash equivalents, and investment resources, and you will not have the opportunity to assess whether these liquid assets are being used in a manner that you deem best to maximize your return. We may use our available resources for corporate purposes that do not increase our operating results or market value. In addition, our cash, cash equivalents, and liquid investment resources may be placed in investments that do not produce significant income or that may lose value

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our Class A common stock.

Provisions in our certificate of incorporation and bylaws, as amended and restated, may have the effect of delaying or preventing a change of control or changes in our management. These provisions provide for the following:

- authorize our Board of Directors to issue, without further action by the stockholders, up to 25,000,000 shares of undesignated preferred stock;

- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;

- specify that special meetings of our stockholders can be called only by our Board of Directors, our Chairman of the Board of Directors, our President or by unanimous written consent of our directors appointed by the holders of Class B common stock;

- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our Board of Directors;

Table of Contents

establish that our Board of Directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered terms and with one Class B director being elected to each of Classes II and III;

provide for a dual class common stock structure, which provides our founders, current investors, executives and employees with significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our Company or its assets;

provide that our directors may be removed only for cause;

provide that vacancies on our Board of Directors may be filled only by a majority of directors then in office, even though less than a quorum, other than any vacancy in the two directorships reserved for the designees of the holders of Class B common stock, which may be filled only by the affirmative vote of the holders of a majority of the outstanding Class B common stock or by the remaining director elected by the Class B common stock (with the consent of founders holding a majority in interest of the Class B common stock over which the founders then exercise voting control);

specify that no stockholder is permitted to cumulate votes at any election of directors; and

require supermajority votes of the holders of our common stock to amend specified provisions of our charter documents.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder.

Our share price may be volatile as a result of limited trading volume and other factors.

Our shares of Class A common stock began trading on the New York Stock Exchange in March 2010. An active public market for our shares on the New York Stock Exchange may not be sustained. In particular, limited trading volumes and liquidity may limit the ability of stockholders to purchase or sell our common stock in the amounts and at the times they wish. Trading volume in our Class A common stock tends to be modest relative to our total outstanding shares, and the price of our Class A common stock may fluctuate substantially (particularly in percentage terms) without regard to news about us or general trends in the stock market. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

In addition, the trading price of our Class A common stock could become highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this “Risk Factors” section of this Annual Report on Form 10-K and others such as:

- actual or anticipated fluctuations in our financial condition and operating results;
- overall conditions in the semiconductor market;
- addition or loss of significant customers;
- changes in laws or regulations applicable to our products;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements of technological innovations by us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- competition from existing products or new products that may emerge;

Table of Contents

issuance of new or updated research or reports by securities analysts;  
fluctuations in the valuation of companies perceived by investors to be comparable to us;  
disputes or other developments related to proprietary rights, including patents, litigation matters and our ability to obtain intellectual property protection for our technologies;  
the recently completed acquisition of Entropic and the wireless infrastructure access and backhaul businesses may not be accretive and may cause dilution to our earnings per shares;  
announcement or expectation of additional financing efforts;  
sales of our Class A or Class B common stock by us or our stockholders;  
share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and  
general economic and market conditions.

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

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, especially due to our dual-class voting structure, our share price and trading volume could decline. The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, especially with respect to our unique dual-class voting structure as to the election of directors, change of control matters and matters related to our equity incentive plans. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

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

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. As of September 30, 2016, we had 55.7 million shares of Class A common stock and 6.7 million shares of Class B common stock outstanding.

All shares of Class A common stock are freely tradable without restrictions or further registration under the Securities Act of 1933, as amended, or the Securities Act, except for any shares held by our affiliates as defined in Rule 144 under the Securities Act.

We have filed registration statements on Form S-8 under the Securities Act to register 18.9 million shares of our Class A common stock for issuance under our 2010 Equity Incentive Plan and 2010 Employee Stock Purchase Plan in addition to 3.2 million awards that were assumed and remain outstanding in connection with the Entropic acquisition. These shares may be freely sold in the public market upon issuance and once vested, subject to other restrictions provided under the terms of the applicable plan and/or the option agreements entered into with option holder.

Our Executive Incentive Bonus Plan permits the settlement of awards under the plan in the form of shares of its Class A common stock. For the 2013 performance period, actual awards under the Executive Incentive Bonus Plan were settled in Class A common stock issued under our 2010 Equity Incentive Plan, as amended, with the number of shares issuable to plan participants determined based on the closing sales price of our Class A common stock as determined in trading on the New York Stock Exchange on May 9, 2014. Additionally, we settled all bonus awards for all other employees for the 2013 performance period in shares of its Class A common stock. We issued 0.6 million shares of our Class A common stock for the 2013



Table of Contents

performance period upon settlement of the bonus awards on May 9, 2014. We issued 0.2 million shares of our Class A common stock for the 2014 performance period upon settlement of the bonus awards on May 14, 2015. We issued 0.3 million shares of our 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. We issued 0.2 million shares of our Class A common stock for the July 1, 2015 to December 31, 2015 performance period on May 13, 2016. We issued 0.2 million shares of our Class A common stock for the January 1, 2016 to June 30, 2016 performance period on August 12, 2016. We expect to issue additional shares of Class A common stock in May 2017 for the second half 2016 fiscal performance period. These shares may be freely sold in the public market immediately following the issuance of such shares and the issuance of such shares may have an adverse effect on our share price once they are issued.

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

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

**Risks Relating to Our Recent Acquisitions**

Actual financial and operating results could differ materially from any expectations or guidance provided by us concerning future results, including (without limitation) expectations or guidance with respect to the financial impact of any cost savings and other potential synergies resulting from our recent acquisitions.

We currently expect to continue realizing material cost savings and other synergies as a result of recent acquisitions, and as a result, we currently believe that these acquisitions will continue to be accretive to our earnings per share, excluding upfront non-recurring charges, transaction related expenses, and the amortization of purchased intangible assets. The expectations and guidance we have provided with respect to the potential financial impact of the acquisitions are subject to numerous assumptions, however, including assumptions derived from our diligence efforts concerning the status of and prospects for the acquired businesses, and assumptions relating to the near-term prospects for the semiconductor industry generally and the markets for the legacy acquired products in particular. Additional assumptions we have made relate to numerous matters, including (without limitation) the following:

- projections of future revenues in the legacy acquired businesses;
- the anticipated financial performance of legacy acquired products and products currently in development;
- anticipated cost savings and other synergies associated with the acquisitions, including potential revenue synergies;
- the amount of goodwill and intangibles that will result from the acquisitions;
- certain other purchase accounting adjustments that we have recorded in our financial statements in connection with the acquisitions;
- acquisition costs, including restructuring charges and transactions costs payable to our financial, legal, and accounting advisors; and
- our ability to maintain, develop, and deepen relationships with customers of the legacy acquired businesses.

We cannot provide any assurances with respect to the accuracy of our assumptions, including our assumptions with respect to future revenues or revenue growth rates, if any, of the legacy acquired businesses, and we cannot provide assurances with respect to our ability to realize further cost savings. Risks and uncertainties that could cause our actual results to differ materially from currently anticipated results include, but are not limited to, risks relating to our ability to integrate the legacy acquired business successfully; currently unanticipated additional incremental costs that we may incur in connection with integrating the two companies; risks relating to our ability to continue to realize incremental revenues from the acquisition in the amounts that we currently anticipate; risks relating to the willingness of legacy acquired customers and other partners to continue to conduct business with MaxLinear; and numerous risks and uncertainties that affect the semiconductor industry generally and the markets for our products and those of the legacy acquired businesses specifically. Any failure to integrate the legacy acquired businesses successfully and to continue to realize the financial benefits we currently anticipate from the





Table of Contents

acquisition would have a material adverse impact on our future operating results and financial condition and could materially and adversely affect the trading price or trading volume of our Class A common stock.

Failure to integrate our business and operations successfully with those of acquired businesses in the expected time-frame or otherwise may adversely affect our operating results and financial condition.

Our history of acquiring businesses is recent, and prior to our acquisition of Entropic, we had never pursued an acquisition of that size and complexity. We may complete larger-scale acquisitions in the future. The success of our recent and future acquisitions depends, in substantial part, on our ability to integrate acquired business and operations efficiently and successfully with those of MaxLinear and to realize fully the anticipated benefits and potential synergies from combining our companies, including, among others, cost savings from eliminating duplicative functions; operational efficiencies in our respective supply chains and in research and development investments; and revenue growth resulting from the addition of acquired product portfolios. If we are unable to achieve these objectives, the anticipated benefits and potential synergies from the acquisition may not be realized fully, or may take longer to realize than expected. Any failure to timely realize these anticipated benefits would have a material adverse effect on our business, operating results, and financial condition.

We completed our recent acquisitions in April 2015, April 2016, and July 2016. While we believe the integration process is substantially complete for Entropic, we are in the beginning stages of the integration process for our April 2016 and July 2016 acquisitions. We cannot ensure that implementation of remaining integration objectives will not adversely affect our operating results. In connection with the integration process, we could experience the loss of key customers, decreases in revenues relative to current expectations and increases in operating costs, as well as the disruption of our ongoing businesses, any or all of which could limit our ability to achieve the anticipated benefits and potential synergies from the acquisition and have a material adverse effect on our business, operating results, and financial condition.

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

In response to the completion of our recent acquisitions, customers, vendors, licensors, and other third parties with whom we do business or the acquired entities did business or otherwise have relationships may experience uncertainty associated with the acquisitions, and this uncertainty could materially affect their decisions with respect to existing or future business relationships with us. Moreover, with respect to Entropic's prior acquisition of certain television and set-top box assets from Trident Microsystems, Inc., or Trident, we were unable to conduct substantial diligence with respect to certain licenses and intellectual property rights because Entropic acquired these assets through Trident's bankruptcy proceedings. As a result, we are in many instances unable to evaluate the impact of the acquisition on certain assumed contract rights and obligations, including intellectual property rights.

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

We have incurred and expect to continue to incur substantial expenses related to the operational integration of our recent acquisitions.

We have incurred and expect to continue to incur substantial expenses in connection with integrating the operations, technologies, and business systems of MaxLinear and acquired businesses. Business systems integration between the companies requires, and we expect it to continue to require into the foreseeable future, substantial management attention, including integration of information management, purchasing, accounting and finance, sales, and regulatory compliance functions. Numerous factors, many of which, are beyond our control, could affect the total cost or the

timing of expected integration expenses. Moreover, many of the expenses that will be incurred are by their nature difficult to estimate accurately at the present time. These expenses could reduce the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of the businesses. These

Table of Contents

integration expenses have resulted in MaxLinear's taking significant charges against earnings following the completion of the acquisition.

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

The acquisitions of Entropic, the wireless infrastructure access business of Microsemi, and the wireless infrastructure backhaul business of Broadcom are accounted for under the acquisition method of accounting by MaxLinear in accordance with accounting principles generally accepted in the United States. Under the acquisition method of accounting, the assets and liabilities of acquired businesses are recorded, as of completion, at their respective fair values and added to our existing assets and liabilities. Our reported financial condition and results of operations after completion of the acquisition reflect acquired businesses' balances and results but are not restated retroactively to reflect the historical financial position or results of operations of acquired businesses for periods prior to the acquisition. As a result, comparisons of future results against prior period results will be more difficult for investors. Under the acquisition method of accounting, the total purchase price is allocated to tangible assets and liabilities and identifiable intangible assets of acquired businesses based on their fair values as of the date of completion of the acquisition. The excess of the purchase price over those fair values is recorded as goodwill. The acquisition has resulted in the creation of goodwill based upon the application of the acquisition method of accounting. To the extent the value of goodwill or other intangible assets become impaired, we may be required to incur material charges relating to such impairment. We conduct our annual goodwill impairment analysis on October 31, or more frequently if we believe indicators of impairment exist. In addition, there can be no guarantee that acquired intangible assets, particularly in-process research and development, will generate revenues or profits that we include in our forecast that is the basis for their fair values as of the acquisition date. Any impairment charges relating to goodwill or other intangible assets could have a material impact on our operating results in future periods, and the announcement of a material impairment could have an adverse effect on the trading price and trading volume of our Class A common stock. For example, in the quarter ended September 30, 2016, we recognized IPR&D impairment losses of \$1.3 million related principally to acquired wireless infrastructure access assets, and in the quarter ended December 31, 2015, we recognized IPR&D impairment losses of \$21.6 million related principally to acquired Entropic assets. As of September 30, 2016, our balance sheet reflected goodwill of \$75.8 million and other intangible assets of \$109.9 million, including IPR&D intangible assets of \$25.5 million, and we could recognize further impairment charges in the future.

Table of Contents

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

Recent Sales of Unregistered Securities

In the three and nine months ended September 30, 2016, we issued an aggregate of 0.01 million and 0.16 million shares of our Class B common stock, respectively, to certain employees upon the exercise of options awarded under our 2004 Stock Plan. We received aggregate proceeds of approximately \$0.01 million and \$0.3 million in the three and nine months ended September 30, 2016, respectively, as a result of the exercise of these options. We believe these transactions were exempt from the registration requirements of the Securities Act in reliance on Rule 701 thereunder as transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. As of September 30, 2016, options to purchase an aggregate of 1.0 million shares of our Class B common stock remain outstanding. All issuances of shares of our Class B common stock pursuant to the exercise of these options will be made in reliance on Rule 701. All option grants made under the 2004 Stock Plan were made prior to the effectiveness of our initial public offering. No further option grants will be made under our 2004 Stock Plan.

The sales and issuances of securities in the transactions described above were deemed to be exempt from registration under the Securities Act of 1933, as amended, in reliance upon Rule 701 promulgated under Section 3(b) of the Securities Act of 1933, as amended, as transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. All recipients had adequate access, through employment or other relationships, to information about us. All certificates representing the securities issued in these transactions included appropriate legends setting forth that the securities had not been offered or sold pursuant to a registration statement and describing the applicable restrictions on transfer of the securities. There were no underwriters employed in connection with any of the transactions set forth above. Each share of our Class B common stock is convertible at any time at the option of the holder into one share of our Class A common stock. In addition, each share of our Class B common stock will convert automatically into one share of Class A common stock upon any transfer, whether or not for value, except for certain transfers described in our certificate of incorporation.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number Exhibit Title

10.6	Amended and Restated 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 to the Registrant’s Current Report on Form 8-K (File No. 001-34666) filed with the SEC on August 15, 2016).
10.5	2010 Employee Stock Purchase Plan, as amended, (incorporated by reference to Exhibit 10.8 to the Registrant’s Current Report on Form 8-K (File No. 001-34666) filed with the SEC on August 15, 2016).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(*)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

+ Indicates a management contract or compensatory plan.

Table of Contents

SIGNATURES

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

MAXLINEAR, INC.

(Registrant)

Date: November 7, 2016    By: /s/ Adam C. Spice  
Adam C. Spice  
Chief Financial Officer and Vice President  
(Principal Financial Officer and Duly Authorized Officer)

Table of Contents

EXHIBITS INDEX

Exhibit Number Exhibit Title

10.6	Amended and Restated 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 to the Registrant’s Current Report on Form 8-K (File No. 001-34666) filed with the SEC on August 15, 2016).
10.5	2010 Employee Stock Purchase Plan, as amended, (incorporated by reference to Exhibit 10.8 to the Registrant’s Current Report on Form 8-K (File No. 001-34666) filed with the SEC on August 15, 2016).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(*)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

+ Indicates a management contract or compensatory plan.