MAXLINEAR INC
Form 10-Q
August 08, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 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 incorporation or organization)	(I.R.S. Employer Identification No.)
5966 La Place Court, Suite 100 Carlsbad, California	92008
(Address of principal executive offices)	(Zip Code)

(760) 692-0711
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

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

As of August 3, 2016, the registrant has 57,356,324 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

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)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$147,582	$ 67,956
Short-term investments, available-for-sale	28,899	43,300
Accounts receivable, net	44,340	42,399
Inventory	25,604	32,443
Prepaid expenses and other current assets	4,982	3,904
Total current assets	251,407	190,002
Property and equipment, net	21,134	21,858
Long-term investments, available-for-sale	—	19,242
Intangible assets, net	60,675	51,355
Goodwill	56,714	49,779
Other long-term assets	1,982	2,269
Total assets	$391,912	$ 334,505
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$8,114	$ 6,389
Deferred revenue and deferred profit	5,798	4,066
Accrued price protection liability	18,270	20,026
Accrued expenses and other current liabilities	13,125	15,368
Accrued compensation	10,313	9,983
Total current liabilities	55,620	55,832
Deferred rent	10,040	11,427
Other long-term liabilities	5,064	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, 57,345 and 55,737 shares issued and outstanding at June 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 June 30, 2016 and December 31, 2015	1	1
Additional paid-in capital	400,093	384,961
Accumulated other comprehensive loss	(953)	(822)
Accumulated deficit	(77,959)	(121,221)
Total stockholders' equity	321,188	262,924
Total liabilities and stockholders' equity	$391,912	$ 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	$101,687	$70,824	$204,372	$106,220
Cost of net revenue	38,774	43,882	80,289	57,607
Gross profit	62,913	26,942	124,083	48,613
Operating expenses:				
Research and development	24,037	23,993	47,789	39,274
Selling, general and administrative	16,505	23,620	30,115	34,564
Restructuring charges	—	11,389	2,106	11,389
Total operating expenses	40,542	59,002	80,010	85,227
Income (loss) from operations	22,371	(32,060)	44,073	(36,614)
Interest income	167	51	337	121
Other income (expense), net	124	(22)	(74)	(56)
Income (loss) before income taxes	22,662	(32,031)	44,336	(36,549)
Provision for income taxes (income tax benefit)	78	(1,384)	1,071	(1,180)
Net income (loss)	$22,584	$(30,647)	$43,265	$(35,369)
Net income (loss) per share:				
Basic	$0.36	$(0.58)	$0.69	$(0.78)
Diluted	$0.33	$(0.58)	$0.64	$(0.78)
Shares used to compute net income (loss) per share:				
Basic	63,470	52,586	63,056	45,367
Diluted	67,520	52,586	67,110	45,367

See accompanying notes.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss)	$22,584	$(30,647)	$43,265	$(35,369)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investments, net of tax of $0 for the three and six months ended June 30, 2016 and 2015	48	(2)	174	33
Less: Reclassifications to realized gain on sales and maturities of investments, net of tax of $0 for the three and six months ended June 30, 2016 and 2015	(50)	—	(50)	—
Unrealized gain (loss) on investments, net of tax	(2)	(2)	124	33
Foreign currency translation adjustments, net of tax benefit of $27 for the three and six months ended June 30, 2016 and 2015 [1]	(363)	68	(255)	80
Foreign currency translation adjustments, net of tax	(363)	68	(255)	80
Other comprehensive income (loss)	(365)	66	(131)	113
Total comprehensive income (loss)	$22,219	$(30,581)	$43,134	$(35,256)

[1] Tax amount recognized in Other Long-Term Liabilities of the Consolidated Balance Sheets as part of long-term deferred tax liabilities.

See accompanying notes.

6

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Operating Activities		
Net income (loss)	$43,265	$(35,369)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Amortization and depreciation	9,935	13,866
Provision for inventory reserves	9	—
Amortization of investment premiums, net	83	204
Amortization of inventory step-up	336	13,286
Stock-based compensation	10,211	10,020
Deferred income taxes	133	(1,960)
Loss on disposal of property and equipment	48	—
Gain on sale of available-for-sale securities	(50)	—
Change in fair value of contingent consideration	110	(132)
Impairment of lease	—	5,593
Gain on foreign currency	(46)	—
Excess tax benefits on stock based awards	(5,114)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,941)	6,176
Inventory	7,409	(11,650)
Prepaid and other assets	(805)	3,384
Accounts payable, accrued expenses and other current liabilities	4,967	434
Accrued compensation	3,540	1,503
Deferred revenue and deferred profit	1,732	523
Accrued price protection liability	(1,756)	2,275
Other long-term liabilities	(767)	249
Net cash provided by operating activities	71,299	8,402
Investing Activities		
Purchases of property and equipment	(4,710)	(1,460)
Purchases of intangible assets	(390)	—
Cash used in acquisition, net of cash acquired	(21,000)	(3,615)
Purchases of available-for-sale securities	(47,277)	(19,968)
Maturities of available-for-sale securities	81,011	53,108
Net cash provided by investing activities	7,634	28,065
Financing Activities		
Repurchases of common stock	(3)	(101)
Net proceeds from issuance of common stock	4,285	3,455
Minimum tax withholding paid on behalf of employees for restricted stock units	(3,593)	(3,161)
Equity issuance costs	—	(705)
Net cash provided by (used in) financing activities	689	(512)
Effect of exchange rate changes on cash and cash equivalents	4	80
Increase in cash and cash equivalents	79,626	36,035
Cash and cash equivalents at beginning of period	67,956	20,696
Cash and cash equivalents at end of period	$147,582	$56,731
Supplemental disclosures of cash flow information:		

Cash paid for income taxes	$1,263	$7
Supplemental disclosures of non-cash activities:		
Issuance of restricted stock units to Physpeed continuing employees	$578	$—
Issuance of accrued share-based bonus plan	$3,652	$2,722

See accompanying notes.

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 for data center, metro, and long-haul transport network applications and wireless infrastructure. 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 six months ended June 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 six months ended June 30, 2016, other than the 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.

Recent Accounting Pronouncements

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

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 Company is currently evaluating the impact that this guidance will have 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 who 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. The impact of adoption was to reduce the provision for income taxes and increase net income for the three and six months ended June 30, 2016 by $3.5 million and $5.1 million, respectively, and increase basic net income per share by $0.06 and $0.08 for the three and six months ended June 30, 2016 and increase diluted net income per share by $0.04 and $0.06 for the three and six months ended June 30, 2016 (Note 2). The impact of adoption on the Company's previously reported results for the three months ended March 31, 2016 are as follows:

	Three months ended March 31, 2016	
	As reported	As adjusted
	(in thousands, except per share amounts)	
Provision for income taxes	$2,558	$993
Net income	$19,116	$20,681
Basic earnings per share	$0.31	$0.33
Diluted earnings per share	$0.29	$0.31
Diluted weighted average shares outstanding	65,818	66,643

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.

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 $3.5 million and $5.1 million for the three and six months ended June 30, 2016, and to increase the number of incremental shares used in computing diluted EPS by 910,000 shares and 868,000 shares for the three and six months ended June 30, 2016, or an increase to diluted net income per share of $0.04 per share and $0.06 per share for the three and six months ended June 30, 2016.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Numerator:				
Net income (loss)	$22,584	$(30,647)	$43,265	$(35,369)
Denominator:				
Weighted average common shares outstanding—basic	63,470	52,586	63,056	45,367
Dilutive common stock equivalents	4,050	—	4,054	—
Weighted average common shares outstanding—diluted	67,520	52,586	67,110	45,367
Net income (loss) per share:				
Basic	$0.36	$(0.58)	$0.69	$(0.78)
Diluted	$0.33	$(0.58)	$0.64	$(0.78)

The Company excluded 1.2 million and 0.7 million common stock equivalents for the three and six months ended June 30, 2016, respectively, and 4.3 million and 5.7 million common stock equivalents for the three and six months ended June 30, 2015, respectively, resulting from outstanding equity awards for the calculation of diluted net income (loss) per share due to their anti-dilutive nature.

3. Business Combination

Acquisition of Certain Assets and Assumption of Certain Liabilities of the Wireless Infrastructure Access Line Business of 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 line 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 line 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 intends to integrate 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.

The following is a preliminary allocation of purchase price as of the April 28, 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	$ 21,000
Preliminary 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 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 access line business with the operations of MaxLinear.

The Company has not yet made all of the remaining disclosures required by ASC 805-10-50-2, Business Combinations, as it is currently in the process of completing the purchase accounting for the acquisition. The Company used cash and cash equivalents on hand of $21.0 million to fund the acquisition.

Acquisition and integration-related costs of $0.6 million related to the acquisition of the wireless infrastructure access line business were included in selling, general, and administrative expenses in the Company's statement of operations for the three months ended June 30, 2016.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Net revenues – proforma combined	$102,530	$71,630	$207,648	$108,067
Net income (loss) – proforma combined	22,692	(34,117)	42,696	(43,862)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income (loss)	$22,584	$(30,647)	$43,265	$(35,369)
Add: Results of operations – acquired business	163	(2,566)	126	(5,764)
Less: Proforma adjustments				
Depreciation of property, plant and equipment	(1)	(2)	(3)	(5)
Amortization of intangible assets	(203)	(857)	(809)	(1,713)
Amortization of inventory step-up	—	—	—	(336)
Acquisition and integration expenses	569	—	569	(569)
Tax provision	(420)	(45)	(452)	(106)
Net income (loss) – proforma combined	$22,692	$(34,117)	$42,696	$(43,862)

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 merger 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 acquisition in the Company's unaudited consolidated statements of operations.

For the three and six months ended June 30, 2016, $0.8 million of revenue and $0.4 million of gross profit, excluding $0.5 million of amortization of acquired intangible assets and the inventory fair-value step-up of the wireless infrastructure access line business since the acquisition date are included in the Company's consolidated statements of operations.

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 six months ended June 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 six months ended June 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 will end 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 $0.3 million and $0.4 million at June 30, 2016 and December 31, 2015, respectively. During the six months ended June 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 $1.3 million and $1.9 million at June 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 June 30, 2016.

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 six months ended June 30, 2016, as such terminations did not occur during such quarters. The Company recognized non-recurring employee separation charges of approximately $5.8 million in the three and six months ended June 30, 2015 related to these terminations. 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 six months ended June 30, 2016, respectively, and $5.6 million in the three and six months ended June 30, 2015, 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 June 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 June 30,		Six Months Ended June 30, 2016	
	2016	2015	2016	2015
	(in thousands)			
Employee separation expenses	$—	$5,796	$—	$5,796
Lease related charges (1)	—	5,593	1,976	5,593
Other	—	—	130	—
	$—	$11,389	$2,106	$11,389

(1) In the six months ended June 30, 2016, includes $0.4 million in offsets to restructuring charges related to an Entropic lease that was restructured prior to the completion of the acquisition by MaxLinear. The Company recorded an adjustment to the lease restructuring due to changes in market conditions. In the three months ended June 30, 2016, includes no offsets to restructuring charges related to Entropic leases.

The following table presents a roll-forward of the Company's restructuring liability as of June 30, 2016, which is included in accrued expenses and other current liabilities in the Consolidated Balance Sheets:

	Employee Separation Expenses	Lease Related Charges	Other	Total
	(in thousands)			
Liability as of December 31, 2015	$75	$1,557	$1	$1,633
Restructuring charges (1)	—	1,976	130	2,106
Cash payments	(9)	(2,376)	(73)	(2,458)
Non-cash charges	—	165	(19)	146
Liability as of June 30, 2016	$66	$1,322	$39	$1,427

(1) In the six months ended June 30, 2016, includes $0.4 million in offsets to restructuring charges related to an Entropic lease that was restructured during to the completion of the acquisition by MaxLinear. The Company recorded an adjustment to the lease restructuring due to changes in market conditions. In the three months ended June 30, 2016, includes no offsets to restructuring charges related to Entropic leases.

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 line business	6,935
Balance as of June 30, 2016	$ 56,714

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 six months ended June 30, 2016 and 2015.

MAXLINEAR, INC.
Table of Contents NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; in thousands, except per share amounts and percentage data)

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:

		June 30, 2016			December 31, 2015		
	Weighted Average Useful Life (in Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)					
Licensed technology	3	$3,311	$ (2,876)	$435	$2,921	$ (2,725)	$196
Developed technology	7	55,600	(8,214)	47,386	47,000	(4,652)	42,348
Trademarks and trade names	7	1,700	(283)	1,417	1,700	(162)	1,538
Customer relationships	5	7,800	(1,290)	6,510	4,700	(627)	4,073
Covenants non-compete	3	100	(6)	94	—	—	—
Backlog	1	24,700	(24,367)	333	24,200	(24,200)	—
		$93,211	$ (37,036)	$56,175	$80,521	$ (32,366)	$48,155

Amortization expense related to intangible assets was $2.6 million and $4.7 million in the three and six months ended June 30, 2016, respectively, and $9.2 million and $9.4 million in the three and six months ended June 30, 2015, respectively.

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

	Carrying Amount (in thousands)
Balance as of December 31, 2015	$ 48,155
Acquisition of wireless infrastructure access line business	12,300
Other additions	390
Amortization	(4,670)
Balance as of June 30, 2016	$ 56,175

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

	Amortization (in thousands)
2016 (six months)	$ 5,597
2017	10,485
2018	10,468
2019	9,159
2020	8,499
2021	8,122
Thereafter	3,845
Total	$ 56,175

16

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 line business	1,300
Balance as of June 30, 2016	$ 4,500

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. No impairment losses related to long-lived assets were recognized for the three and six months ended June 30, 2016 and 2015.

6. Financial Instruments

The composition of financial instruments is as follows:

&#16