

ENTROPIC COMMUNICATIONS INC

Form 10-Q

November 01, 2012

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2012

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: 001-33844

**ENTROPIC COMMUNICATIONS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction)  
of Incorporation or Organization)

**33-0947630**  
(I.R.S. Employer  
Identification No.)

**6290 Sequence Drive**  
**San Diego, CA 92121**

(Address of Principal Executive Offices, Including Zip Code)

**Registrant's telephone number, including area code: (858) 768-3600**

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  Smaller reporting company   
(Do not check if a 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

There were 88,546,867 shares of the registrant's common stock, par value \$0.001 per share, issued and outstanding as of October 29, 2012.

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**ENTROPIC COMMUNICATIONS, INC.**

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Entropic Communications, Inc.****Unaudited Condensed Consolidated Balance Sheets***(in thousands)*

	September 30, 2012	December 31, 2011 <sup>(1)</sup>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 22,511	\$ 20,193
Marketable securities	90,560	91,625
Accounts receivable	36,104	25,896
Inventory	39,532	20,253
Deferred tax assets, current	13,658	13,565
Prepaid expenses and other current assets	23,323	9,927
Total current assets	225,688	181,459
Property and equipment, net	14,969	11,250
Long-term marketable securities	53,255	104,708
Intangible assets, net	49,953	
Goodwill	4,664	
Deferred tax assets, long-term	9,953	9,600
Other long-term assets	9,501	11,542
Total assets	\$ 367,983	\$ 318,559
<b>Liabilities and stockholders equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 20,083	\$ 11,559
Accrued expenses and other current liabilities	16,005	4,078
Accrued payroll and benefits	13,057	3,835
Total current liabilities	49,145	19,472
Deferred rent	727	1,098
Other long-term liabilities	1,307	196
<b>Stockholders equity:</b>		
Common Stock	89	87
Additional paid-in capital	462,592	448,440
Accumulated deficit	(146,165)	(150,639)
Accumulated other comprehensive income (loss)	288	(95)
Total stockholders equity	316,804	297,793
Total liabilities and stockholders equity	\$ 367,983	\$ 318,559

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- (1) The unaudited condensed consolidated balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****Entropic Communications, Inc.****Unaudited Condensed Consolidated Statements of Operations***(in thousands, except per share data)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net revenues	\$ 89,825	\$ 51,465	\$ 231,980	\$ 184,459
Cost of net revenues	45,778	22,996	111,886	82,581
Gross profit	44,047	28,469	120,094	101,878
Operating expenses:				
Research and development	28,072	15,142	69,214	42,439
Sales and marketing	6,966	4,073	18,986	13,196
General and administrative	5,718	2,939	19,592	10,143
Amortization of intangibles	930		1,645	
Total operating expenses	41,686	22,154	109,437	65,778
Income from operations	2,361	6,315	10,657	36,100
Loss related to equity method investment	(799)	(91)	(2,536)	(91)
Other income, net	31	224	567	626
Income before income taxes	1,593	6,448	8,688	36,635
Income tax provision	1,185	1,803	4,214	12,379
Net income	\$ 408	\$ 4,645	\$ 4,474	\$ 24,256
Net income per share basic	\$	\$ 0.05	\$ 0.05	\$ 0.28
Net income per share diluted	\$	\$ 0.05	\$ 0.05	\$ 0.27
Weighted average number of shares used to compute net income per share basic	88,399	86,541	87,913	85,993
Weighted average number of shares used to compute net income per share diluted	90,885	88,884	89,918	89,165

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****Entropic Communications, Inc.****Unaudited Condensed Consolidated Statements of Comprehensive Income***(in thousands)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 408	\$ 4,645	\$ 4,474	\$ 24,256
Other comprehensive income:				
Change in foreign currency translation adjustment	59	18	76	35
Available-for-sale investments:				
Change in net unrealized gains, net of taxes	172	(180)	307	(90)
	231	(162)	383	(55)
Comprehensive income	\$ 639	\$ 4,483	\$ 4,857	\$ 24,201

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents****Entropic Communications, Inc.****Unaudited Condensed Consolidated Statements of Cash Flows***(in thousands)*

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities:</b>		
Net income	\$ 4,474	\$ 24,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,937	3,245
Amortization of intangible assets	5,447	
Change in acquisition-related contingent consideration liability	230	
Deferred taxes	(202)	11,862
Excess tax benefit on stock option exercises	(286)	
Stock-based compensation	10,982	9,426
Amortization of premiums on investments	2,652	2,938
Provision for excess and obsolete inventory	365	1,547
Loss related to equity method investment	2,536	91
Changes in operating assets and liabilities:		
Accounts receivable	(2,142)	(16,889)
Inventory	(12,553)	12,588
Prepaid expenses and other current assets	(4,117)	(2,611)
Other long-term assets	(363)	787
Accounts payable	8,524	(12,138)
Accrued expenses and other current liabilities	3,296	(539)
Accrued payroll and benefits	6,728	(924)
Deferred rent	(371)	(350)
Other long-term liabilities	942	54
Net cash provided by operating activities	30,079	33,343
<b>Investing activities:</b>		
Purchases of property and equipment	(4,876)	(3,279)
Purchases of marketable securities	(79,719)	(180,961)
Sales/maturities of marketable securities		