

ENTROPIC COMMUNICATIONS INC

Form 10-Q

August 09, 2012

Table of Contents

**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 June 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)

Edgar Filing: ENTROPIC COMMUNICATIONS INC - Form 10-Q

**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 88,345,531 shares of the registrant's common stock, par value \$0.001 per share, issued and outstanding as of August 6, 2012.

**Table of Contents**

**ENTROPIC COMMUNICATIONS, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	1
	<u>Unaudited Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011</u>	1
	<u>Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011</u>	2
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011</u>	3
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011</u>	4
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5

Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
---------	--	----

Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	35
---------	---	----

Item 4.	<u>Controls and Procedures</u>	36
---------	--------------------------------	----

**PART II OTHER INFORMATION** 37

Item 1A.	<u>Risk Factors</u>	37
----------	---------------------	----

Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	65
---------	--	----

Item 6.	<u>Exhibits</u>	65
---------	-----------------	----

<b><u>SIGNATURES</u></b>		66
--------------------------	--	----

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

	June 30, 2012	December 31, 2011 <sup>(1)</sup>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 22,435	\$ 20,193
Marketable securities	92,536	91,625
Accounts receivable	41,491	25,896
Inventory	38,172	20,253
Deferred tax assets, current	14,785	13,565
Prepaid expenses and other current assets	29,692	9,927
Total current assets	239,111	181,459
Property and equipment, net	13,078	11,250
Long-term marketable securities	46,773	104,708
Intangible assets, net	43,708	
Goodwill	4,013	
Deferred tax assets, long-term	9,600	9,600
Other long-term assets	10,477	11,542
Total assets	\$ 366,760	\$ 318,559
<b>Liabilities and stockholders equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 29,683	\$ 11,559
Accrued expenses and other current liabilities	12,683	4,078
Accrued payroll and benefits	11,727	3,835
Total current liabilities	54,093	19,472
Deferred rent	849	1,098
Other long-term liabilities	209	196
<b>Stockholders equity:</b>		
Common Stock	88	87
Additional paid-in capital	458,036	448,440
Accumulated deficit	(146,572)	(150,639)
Accumulated other comprehensive income (loss)	57	(95)
Total stockholders equity	311,609	297,793
Total liabilities and stockholders equity	\$ 366,760	\$ 318,559

## Edgar Filing: ENTROPIC COMMUNICATIONS INC - Form 10-Q

- (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)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net revenues	\$ 83,052	\$ 61,473	\$ 142,155	\$ 132,994
Cost of net revenues	40,197	27,646	66,108	59,585
Gross profit	42,855	33,827	76,047	73,409
Operating expenses:				
Research and development	25,671	14,148	41,142	27,297
Sales and marketing	6,975	4,303	12,020	9,123
General and administrative	8,584	3,515	13,874	7,204
Amortization of intangibles	715		715	
Total operating expenses	41,945	21,966	67,751	43,624
Income from operations	910	11,861	8,296	29,785
Loss related to equity method investment	(905)		(1,737)	
Other income, net	246	213	536	402
Income before income taxes	251	12,074	7,095	30,187
Income tax provision	78	4,318	3,029	10,576
Net income	\$ 173	\$ 7,756	\$ 4,066	\$ 19,611
Net income per share - basic	\$	\$ 0.09	\$ 0.05	\$ 0.23
Net income per share - diluted	\$	\$ 0.09	\$ 0.05	\$ 0.22
Weighted average number of shares used to compute net income per share - basic	87,991	86,046	87,667	85,712
Weighted average number of shares used to compute net income per share - diluted	89,484	89,290	89,428	89,296

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, except per share data)*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 173	\$ 7,756	\$ 4,066	\$ 19,611
Other comprehensive income				
Change in foreign currency translation adjustment	17	10	17	16
Available-for-sale investments:				
Change in net unrealized gains, net of taxes	(66)	86	135	90
	(49)	96	152	106
<b>Comprehensive income</b>	<b>\$ 124</b>	<b>\$ 7,852</b>	<b>\$ 4,218</b>	<b>\$ 19,717</b>

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>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities:</b>		
Net income	\$ 4,066	\$ 19,611
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,537	2,115
Amortization of intangible assets	2,492	
Deferred taxes	(792)	8,844
Excess tax benefit on stock option exercises	(471)	
Stock-based compensation	6,777	6,300
Amortization of premiums on investments	1,775	1,769
Provision for excess and obsolete inventory	357	1,021
Loss related to equity method investment	1,737	
Changes in operating assets and liabilities:		
Accounts receivable	(7,529)	(17,698)
Inventory	(11,185)	5,014
Prepaid expenses and other current assets	(10,506)	(169)
Other long-term assets	(542)	216
Accounts payable	18,115	(4,650)
Accrued expenses and other current liabilities	1,548	405
Accrued payroll and benefits	5,586	(2,125)
Deferred rent	(249)	(232)
Other long-term liabilities	13	(1)
Net cash provided by operating activities	13,729	20,420
<b>Investing activities:</b>		
Purchases of property and equipment	(1,834)	(2,561)
Purchases of marketable securities	(43,115)	(132,445)
Sales/maturities of marketable securities	98,551	47,134
Net cash used in acquisitions	(67,895)	
Net cash used in investing activities	(14,293)	(87,872)
<b>Financing activities:</b>		