PNC FINANCIAL SERVICES GROUP INC
Form DEF 14A
March 14, 2003

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Section 240.14a-11c or Section 240.14a-12

THE PNC FINANCIAL SERVICES GROUP INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

JAMES E. ROHR
Chairman and Chief Executive Officer

PNC LOGO

March 21, 2003

Dear Fellow Shareholder:

We are looking forward to discussing the business of your company with you at the 2003 annual meeting. PNC's Board of Directors and management team have never been more focused on building shareholder value and enhancing your company's corporate governance, regulatory relations, and risk management practices. I hope that you'll be able to attend the annual meeting to hear about our progress during 2002 and our goals for the future.

You will find enclosed the notice of meeting, proxy statement, and proxy card for the annual meeting of shareholders of The PNC Financial Services Group, Inc., which will be held on Tuesday, April 22, 2003, at One PNC Plaza, 15th Floor, 249 Fifth Avenue, in Pittsburgh, Pennsylvania, beginning at 11:00 a.m., local time. Our 2002 Annual Report to Shareholders accompanies these enclosures.

Please review the enclosed material and complete, sign, date and return the proxy card regardless of whether or not you plan to attend the annual meeting so that the matters coming before the meeting can be acted upon. Instead of returning a proxy card, you may choose to vote your PNC shares by using the Internet or telephone voting options explained on your proxy card. You can also consent to access future annual reports, proxy statements, and other proxy soliciting material by means of the Internet, rather than receiving paper copies. Details are provided on your proxy card.

If you're not able to attend the annual meeting in person, you can choose to listen to the meeting by webcast or telephone conference options, which are explained on the opposite side of this letter.

Cordially,

/s/ James E. Rohr

James E. Rohr

THE PNC FINANCIAL SERVICES GROUP
One PNC Plaza 249 Fifth Avenue Pittsburgh Pennsylvania 15222-2707

IMPORTANT NOTICE REGARDING DELIVERY OF SECURITY HOLDER DOCUMENTS

In order to reduce printing and postage costs, The PNC Financial Services Group, Inc. ("PNC") has undertaken an effort to deliver only one annual report and one proxy statement to multiple shareholders sharing an address. This delivery method, called "householding," is not being used, however, if PNC has received contrary instructions from one or more of the shareholders sharing an address. If your household has received only one annual report and one proxy statement, PNC will deliver promptly a separate copy of the annual report and the proxy statement to any shareholder who sends a written request to Computershare Investor Services, LLC ("Computershare"), P.O. Box 3504, Chicago, IL 60690-3504 or calls Computershare at 1-800-982-7652. You can also notify PNC that you would like to receive separate copies of PNC's annual report and proxy statement in the future by writing or calling Computershare. Even if your household has received only one annual report and one proxy statement, a separate proxy card has been provided for each shareholder account. Each proxy card should be signed, dated, and returned in the enclosed self-addressed envelope.

If your household has received multiple copies of PNC's annual report and proxy statement, you can request the delivery of single copies in the future by writing or calling Computershare as instructed above.

WEBCAST AND TELECONFERENCE DIRECTIONS

You are cordially invited to listen to PNC's 2003 annual meeting of shareholders webcast live via the Internet on Tuesday, April 22, 2003, beginning at 11 a.m. Eastern Time. The audio portion of the event will also be available in a listen-only mode via telephone conference call. Using the webcast will enable you to view the slides shown at the meeting and hear the speakers on a synchronized basis. Neither the webcast nor the teleconference will enable you to ask questions or to vote your PNC shares.

To access the meeting, please go to http://www.visualwebcaster.com/event.asp?id=12558 or dial 800-223-9488 (domestic) or 1-785-832-0301 (international), using the passcode "PNC," at least 15 minutes prior to the designated starting time to register and download any necessary audio software. If you plan to listen online, it is suggested that you test your computer's access to RealNetworks RealPlayer or Windows MediaPlayer by visiting the above URL no earlier than one week prior to the meeting date.

If you are unable to listen online or via teleconference during the meeting, the event will be archived on the web site at the same address above for one week. The audio portion of the event will also be archived by teleconference for the same duration at 888-566-0824 (domestic) and 1-402-220-0117 (international). The event will be removed on April 30, 2003.

Note: Minimum requirements to listen to this broadcast online: The RealPlayer software, downloadable free from www.real.com/products/player/index.html, and at least a 14.4Kbps connection to the Internet or Windows MediaPlayer software, downloadable at http://www.microsoft.com/windows/windowsmedia/en/download/default.asp.

PNC LOGO

March 21, 2003

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 22, 2003

TO THE SHAREHOLDERS:

The annual meeting of the shareholders of The PNC Financial Services Group, Inc. will be held at One PNC Plaza, 15th Floor, 249 Fifth Avenue, Pittsburgh, Pennsylvania on Tuesday, April 22, 2003, beginning at 11:00 a.m., local time, for the purpose of considering and acting upon the following matters:

(1) The election of 16 directors to serve until the next annual meeting and until their successors are elected and qualified; and

(2) Such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on February 28, 2003 are entitled to receive notice of, and to vote at, the meeting and any adjournment thereof.

A proxy statement, form of proxy and self-addressed envelope are enclosed. Please complete, date and sign the proxy card. Return it promptly in the envelope provided, which requires no postage if mailed in the United States. Alternatively, you may choose to vote your shares using the Internet or telephone voting options explained on the proxy card. If you attend the meeting, you may withdraw your proxy and vote in person if you so choose.

By Order of the Board of Directors,

/s/ Thomas R. Moore

Thomas R. Moore
Corporate Secretary

THE PNC FINANCIAL SERVICES GROUP
One PNC Plaza 249 Fifth Avenue Pittsburgh Pennsylvania 15222-2707

PNC LOGO

March 21, 2003

PROXY STATEMENT

FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD
APRIL 22, 2003

The enclosed proxy is being solicited by the Board of Directors ("Board of Directors" or "Board") of The PNC Financial Services Group, Inc. ("Corporation" or "PNC") for use at the Corporation's annual meeting of shareholders to be held on April 22, 2003, or at any adjournment thereof ("meeting" or "annual meeting"). Solicitation of proxies may be made by mail, personal interviews, telephone and facsimile by officers and employees of the Corporation and its subsidiaries. The Corporation has retained D. F. King & Co., Inc. to assist in the solicitation of proxies for a fee of $12,500 plus out-of-pocket expenses. Brokerage houses and other custodians, nominees and fiduciaries will be requested to forward soliciting material to the beneficial owners of the stock held of record by such persons. Expenses for such solicitation will be borne by the Corporation. The proxy statement and form of proxy are first being mailed to shareholders on or about March 21, 2003.

The enclosed proxy is revocable at any time prior to the time voting is declared closed by the filing of an instrument revoking it, or of a duly executed proxy bearing a later date, with the Corporate Secretary of the Corporation, or by a properly authenticated electronic transmission revoking it or transmitting a proxy bearing a later date, or by attending the meeting and voting in person. All properly executed or authenticated proxies received by the Corporate Secretary prior to the time voting is declared closed, and not revoked or superseded prior to that time, will be voted at the meeting in accordance with the instructions set forth on the proxy, if any. Unless otherwise directed, proxies will be voted FOR the election as director of each of the persons named on page 3.

The Board of Directors has fixed the close of business on February 28, 2003 as the record date for determining shareholders entitled to receive notice of and to vote at the meeting ("Record Date"). On the Record Date, there were issued and outstanding 283,148,371 shares of the Corporation's common stock, par value $5.00 per share ("Common Stock"), and the following shares of the Corporation's preferred stock entitled to vote at the meeting: 9,106 shares of $1.80 Cumulative Convertible Preferred Stock-Series A ("Preferred Stock-A"); 2,420 shares of $1.80 Cumulative Convertible Preferred Stock-Series B ("Preferred Stock-B"); 183,222 shares of $1.60 Cumulative Convertible Preferred Stock-Series C ("Preferred Stock-C"); and 268,952 shares of $1.80 Cumulative Convertible Preferred Stock-Series D ("Preferred Stock-D") (collectively, "Voting Preferred Stock").

The holders of Common Stock are entitled to one vote per share. Holders of each share of Voting Preferred Stock are entitled to a number of votes equal to the number of full shares of Common Stock which can be acquired upon conversion of such preferred stock, with holders of Preferred Stock-A and Preferred Stock-B being entitled to 8 votes per share and holders of Preferred Stock-C and Preferred Stock-D being entitled to 4 votes per 2.4 shares. Holders of record of the Common Stock and Voting Preferred Stock will vote together as a single class at the meeting. The presence in person or by proxy of shareholders entitled to cast at least a majority of the votes that all holders of the Common Stock and the Voting Preferred Stock are entitled to cast at the meeting will constitute a quorum for the transaction of business at the meeting.

THE CORPORATION WILL PROVIDE WITHOUT CHARGE, TO EACH SHAREHOLDER UPON WRITTEN REQUEST, A COPY OF THE CORPORATION'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2002, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC"). REQUESTS FOR COPIES SHOULD BE ADDRESSED TO COMPUTERSHARE INVESTOR SERVICES, POST OFFICE BOX 3504, CHICAGO, ILLINOIS 60690-3504. COPIES MAY ALSO BE OBTAINED BY CALLING (800) 982-7652, OR VIA E-MAIL AT WEB.QUERIES@COMPUTERSHARE. COM. COPIES MAY ALSO BE ACCESSED ELECTRONICALLY BY MEANS OF THE SEC'S HOME PAGE ON THE INTERNET AT WWW.SEC.GOV. NEITHER THE ANNUAL REPORT ON FORM 10-K NOR THE 2002 ANNUAL REPORT TO SHAREHOLDERS IS PART OF THE PROXY SOLICITATION MATERIALS.

ITEM 1

ELECTION OF DIRECTORS

INFORMATION CONCERNING NOMINEES

The By-Laws of the Corporation provide that the number of directors shall not be fewer than five nor more than 36 as from time to time determined by the Board of Directors. Acting upon the recommendation of its Nominating and Governance Committee, the Board has fixed the number of directors to be elected at the annual meeting at 16 and has nominated the persons named on page 3 for election as directors, to hold office until the next annual meeting of shareholders and the election and qualification of their successors.

The proxies solicited hereby, unless directed to the contrary therein, will be voted FOR all of the nominees named on page 3. All such nominees are now directors of the Corporation. All nominees have consented to being named in this proxy statement and to serving if elected. The Board of Directors has no reason to believe that any nominee will be unavailable or unable to serve as a director, but if for any reason any nominee should not be available or able to serve, the accompanying proxy will be voted by the person or persons acting under said proxy in accordance with the recommendation of the Board of Directors.

The table on page 3 sets forth the names of the nominees for election as directors of the Corporation; their ages; their principal occupations as of March 7, 2003; the years the nominees first became directors of the Corporation; and their directorships of certain other companies. All nominees have held the positions indicated or another senior executive position with the same entity or one of its affiliates or a predecessor corporation for at least the past five years. Acting upon the recommendation of the Nominating and Governance Committee, the Board of Directors appointed Mr. Thieke a director of the Corporation at its meeting held on October 2, 2002, and appointed Messrs. Cooper, Kelson, and Massaro as directors at its meeting held on November 21, 2002. Each is standing for election by the shareholders for the first time.

Name	Age	Principal Occupation	Director Since	Directo Other t Filing
Paul W. Chellgren	60	Retired Chairman and Chief Executive Officer of Ashland Inc. (energy company); Adjunct Professor, Northern Kentucky University	1995	None
Robert N. Clay	56	President and Chief Executive Officer of Clay Holding Company (investments)	1987	None
J. Gary Cooper	66	Chairman and Chief Executive Officer of Commonwealth National Bank (community banking)	2002	Gencorp, Inc. Corporation; Corporation
George A. Davidson, Jr.	64	Retired Chairman of Dominion Resources, Inc. (public utility holding company)	1988	Goodrich Corp Resources, In
Richard B. Kelson	56	Executive Vice President and Chief Financial Officer of Alcoa Inc.	2002	MeadWestvaco

		(producer of primary aluminum, fabricated aluminum, and alumina)		
Bruce C. Lindsay	61	Chairman and Managing Director of Brind-Lindsay & Co., Inc. (advisory company)	1995	None
Anthony A. Massaro	58	Chairman, President and Chief Executive Officer of Lincoln Electric Holdings, Inc. (full-line manufacturer of welding and cutting products)	2002	Commercial Me Electric Hold Thomas Indust
Thomas H. O'Brien	66	Retired Chairman of the Corporation	1983	BlackRock, In Hamilton Comp Inc.; and Ver
Jane G. Pepper	57	President of Pennsylvania Horticultural Society (nonprofit membership organization)	1997	None
James E. Rohr	54	Chairman and Chief Executive Officer of the Corporation	1989	Allegheny Tec BlackRock, In Resources Inc
Lorene K. Steffes	57	Vice President, Global Electronics Industry of International Business Machines Corporation (sales, marketing, strategy, solutions, worldwide)	2000	None
Dennis F. Strigl	56	President and Chief Executive Officer of Verizon Wireless, Inc. (wireless telecommunications)	2001	ANADIGICS Inc
Stephen G. Thieke	56	Retired Chairman, Risk Management Committee of JP Morgan Incorporated (financial and investment banking services)	2002	None
Thomas J. Usher	60	Chairman and Chief Executive Officer of United States Steel Corporation (integrated steelmaker)	1992	H.J. Heinz Co Corporation; United States
Milton A. Washington	67	President and Chief Executive Officer of Allegheny Housing Rehabilitation Corporation (housing rehabilitation and construction)	1994	None
Helge H. Wehmeier	60	Vice Chairman of Bayer Corporation (healthcare, crop sciences, polymers, and chemicals)	1992	Terex Corpora

BOARD AND COMMITTEES

The Board of Directors operates in accordance with the PNC Corporate Governance Guidelines, which the Board approved in November 2002. Under those Guidelines, the Board's non-management directors have met and will meet periodically in executive session. The non-management directors have designated the Chairman of the Nominating and Governance Committee to preside at these sessions. The Board of Directors has six standing committees: an Audit Committee; a Nominating and Governance Committee (formerly the Committee on Corporate Governance); a Credit Committee; an Executive Committee; a Finance Committee; and a Personnel and Compensation Committee. The Board has also established an Operations and Technology Committee and a Special Regulatory Affairs and Oversight Committee and is authorized under the By-Laws to establish other committees from time to time. Each committee is authorized to form and delegate authority to subcommittees of one or more committee members when appropriate. Under certain circumstances, a subcommittee member's attendance at a subcommittee meeting will excuse him or her from attending the next regularly scheduled committee meeting. The following descriptions of the functions performed by the committees of the Board of Directors are necessarily general in nature and are qualified in their entirety by reference to a committee's charter or the relevant By-Law provisions.

The Audit Committee is governed by a written charter adopted by the Corporation's Board of Directors. A copy of that charter, as approved and amended by the Board on November 21, 2002, is included as Exhibit A to this proxy statement. The Audit Committee is directly responsible for the appointment, compensation, and oversight of the work of the Corporation's independent auditors (including the resolution of disagreements between management and the auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee is also responsible for approving all audit engagement fees and terms, as well as all permitted non-audit engagements with the independent auditors. The Audit Committee preapproves all auditing services and permitted non-audit services to be performed for the Corporation by the independent auditors (subject to certain de minimis exceptions for non-audit services) and considers whether the provision of non-audit services is compatible with maintaining the auditors' independence. The independent auditors report directly to the Audit Committee. The Corporation's General Auditor also reports directly to the Committee, which is responsible for preparing his or her performance evaluation and reviewing his or her compensation. The Audit Committee's primary purpose is to:

- Provide assistance to the Board by monitoring (1) the integrity of the financial statements of the Corporation, (2) the independent auditors' qualifications and independence, (3) the performance of the Corporation's internal audit function and independent auditors, with respect to both bank and non-bank subsidiaries, and (4) the compliance by the Corporation with legal and regulatory requirements and with the Corporation's Statement of Principles and Code of Ethics; and

- Prepare the report required by the rules of the SEC to be included in the Corporation's annual proxy statement.

The Audit Committee is presently composed of Messrs. Wehmeier (Chairman), Davidson, Kelson, Lindsay, and Thieke. Each Audit Committee member is independent, as defined in the New York Stock Exchange listing standards. Acting upon the recommendation of the Nominating and Governance Committee, the Board of Directors has determined that each of Messrs. Kelson and Thieke is an "audit committee financial expert," as that term is defined in SEC rules. The Audit Committee regularly holds separate sessions with the Corporation's management, internal auditors, and independent auditors.

The Credit Committee's purpose is to provide oversight of risk within the lending and credit-related activities of the Corporation and its subsidiaries. The Committee is presently composed of Ms. Pepper, Ms. Steffes and Messrs. Davidson (Chairman), Rohr, Strigl, and Washington.

The Executive Committee's purpose is to provide an efficient means of considering such matters and taking such actions as may require the attention of the Board or the exercise of the Board's powers or authority in the intervals between meetings of the Board. The Committee is presently composed of Messrs. O'Brien (Chairman), Chellgren, Davidson, Rohr, Usher, and Wehmeier.

The Finance Committee's purposes are to provide oversight of:

- the risk management process and internal control structure relating to the interest rate and liquidity risks of the Corporation;

- the Corporation's trading activities;

- the Corporation's capital management activities;

- the fiduciary activities of the Corporation's subsidiaries, including its principal banking subsidiary;

- the activities of the Pension Plan Committee, the Group Benefit Trust Committee, and the Incentive Savings Plan Committee;

- the Corporation's equity and subordinated debt investments, and risks associated with valuation adjustments of such investments in the financial markets; and

- such other matters relating to the financial management of the Corporation as the Committee may deem appropriate or necessary from time to time.

The Finance Committee is presently composed of Messrs. Chellgren (Chairman), Clay, Lindsay, O'Brien, and Thieke.

The Nominating and Governance Committee's purpose is to assist the Board in promoting the best interests of the Corporation and its shareholders through the implementation of sound corporate governance principles and practices. The Committee will accomplish this by: (1) assisting the Board by identifying individuals qualified to become Board members, and recommending to the Board of Director nominees for the next annual meeting of shareholders; (2) reviewing the qualifications and independence of the members of the Board and its various committees on a regular periodic basis (at least annually) and making any recommendations the Committee members may deem appropriate from time to time concerning any nominations to or recommended changes in the composition of the Board and its committees; (3) recommending to the Board the Corporate Governance Guidelines and standards regarding the independence of outside directors applicable to the Corporation and reviewing such Guidelines and standards and the provisions of its charter on a periodic basis to confirm that such Guidelines, standards and its charter remain consistent with sound corporate governance practices and with any legal, regulatory or New York Stock Exchange requirements and any recommendations of the federal banking regulators regarding general best corporate governance practices; (4) monitoring the Board's and the Corporation's compliance with any commitments made to the Corporation's regulators or otherwise with respect to changes in corporate governance practices; and (5) leading the Board in its annual review of the Board's performance. The Committee is presently composed of Ms. Pepper, Ms. Steffes and Messrs. Usher (Acting Chairman), Clay, and Wehmeier. Mr. Usher became the Acting Chairman of the Committee in August 2002, following the resignation from the Board of the Committee's prior Chairman.

In performing its nominating function, the Committee may consider director nominees recommended by shareholders. Such recommendations with respect to the 2004 annual meeting of shareholders must be submitted in writing no later than November 21, 2003 to the Corporate Secretary, The PNC Financial Services Group, Inc., One PNC Plaza--21st Floor, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707, and include the name, age, citizenship, business and residence addresses, qualifications, including principal occupation or employment, and directorships and other positions held by the proposed nominee in business, charitable, and community organizations. Information must also be provided concerning: (i) any commercial, industrial, banking, consulting, legal, accounting, charitable, familial, or other relationships involving the proposed nominee and PNC or its subsidiaries that may be relevant in determining whether the proposed nominee is independent of PNC under the then applicable rules of the SEC and the New York Stock Exchange; and (ii) the educational, professional, and employment-related background and experience of the proposed nominee, together with any other facts and circumstances that may be relevant in determining whether the proposed nominee is an "audit committee financial expert" under the then applicable rules of the SEC. For information on the requirements governing shareholder nominations for the election of directors to be made at an annual meeting of shareholders, please see the section captioned "Shareholder Proposals and Nominations" beginning on page 32.

The Personnel and Compensation Committee's purpose is to discharge the Board's responsibilities relating to compensation of the Corporation's executive officers. The Committee has overall responsibility for evaluating and approving the executive officer benefit, bonus, incentive compensation, severance, equity-based or other compensation plans, policies and programs of the Corporation. The Committee is also responsible for producing an annual report on executive compensation for inclusion in the Corporation's proxy statement and for overseeing the development of an executive management succession plan. The Committee is presently composed of Messrs. Usher (Chairman), Chellgren, Strigl (Vice Chairman), and Washington.

The Operations and Technology Committee's purpose is to provide oversight of the operations, operational risk management, and technology activities of the Corporation and its subsidiaries. The Committee is presently composed of Ms. Steffes (Chairwoman), Ms. Pepper and Messrs. Lindsay, Rohr, and Strigl.

The Special Regulatory Affairs and Oversight Committee's purpose is to assist the Corporation's Board of Directors in promoting the best interests of the Corporation and its shareholders by providing oversight of the material regulatory affairs, relationships, commitments, and agreements of the Corporation. The Committee is presently composed of Messrs. Davidson (Chairman), Chellgren, Usher, and Wehmeier.

The Board of Directors met twenty-four times during 2002. During 2002, the Board's committees held the following number of meetings: Audit Committee--ten meetings; Credit Committee--four meetings; Executive Committee--none; Finance Committee--eight meetings; Nominating and Governance Committee--six meetings; Operations and Technology Committee--two meetings; Personnel and Compensation Committee--six meetings; and Special Regulatory Affairs and Oversight Committee--twenty-four meetings. In 2002, each director then serving attended at least 75% of the total meetings of the Board of Directors. In addition, each director attended at least 75% of the combined total number of meetings of the Board and all committees on which the director served.

COMPENSATION OF DIRECTORS

Executive officers of the Corporation who are employees and directors or members of committees of the Board of Directors of the Corporation or its subsidiaries receive no compensation for serving in such positions. All non-employee directors of the Corporation are compensated for their Board services by a per diem fee of $1,200 for any day's participation in a Board or committee meeting, or any combination thereof, an annual retainer fee of $37,000 for Board membership and, in accordance with the terms of the Corporation's 1992 Director Share Incentive Plan, an annual grant equal to a number of shares of Common Stock having a fair market value on the date of the award equal to $5,000, rounded up to the nearest whole share. In addition, the chairman of each committee receives a $5,000 annual retainer fee.

Under the Directors Deferred Compensation Plan, non-employee directors may elect to defer the receipt of all or a portion of the cash compensation otherwise payable to them as a result of their service as a director. The minimum deferral amount is $10,000 per year. A director may elect one of two investment options with respect to amounts deferred: an interest rate alternative or an investment in phantom shares of Common Stock. Investment elections may be changed quarterly. A director may also elect the event or date when amounts credited to his or her deferral account are paid out in cash and whether the payout will be in a lump sum or a designated number of annual installments not to exceed ten. The director may designate a beneficiary to receive any amounts that may not yet have been paid at the time of the director's death.

Under the PNC Outside Directors Deferred Stock Unit Plan, prior to 2001 each non-employee director then serving received a grant of deferred stock units (consisting of phantom shares of Common Stock) in an amount determined by the Nominating and Governance Committee, which is generally responsible for administration of the plan. Prior to a director's retirement, the value of deferred stock units credited to a director's account tracks the performance of the Common Stock and is valued on a quarterly basis. The plan provides for the deemed reinvestment of dividends in additional deferred stock units. Each participating director has the right to elect an event or date when the deferred stock units credited to his or her account will be redeemed and paid out in cash. That event or date generally cannot precede the earlier of the director's retirement from the Board or the date on which the director attains age 70. A director may elect to receive

payment in a lump sum or a designated number of annual installments not to exceed ten. A director may also designate one or more beneficiaries to receive distributions from his or her account in the event of death. No grants of deferred stock units were made under this plan in 2001 or 2002.

The Nominating and Governance Committee currently intends that grants and awards made under the amended 1997 Long-Term Incentive Award Plan to non-employee directors as described below will be made in lieu of future grants of deferred stock units under the PNC Outside Directors Deferred Stock Unit Plan. Nevertheless, the PNC Outside Directors Deferred Stock Unit Plan will remain in existence. Deferred stock units previously credited to a non-employee director's account will remain vested, and deemed dividends will continue to be credited to those accounts in the form of additional deferred stock units. In addition, the Nominating and Governance Committee will continue to have the authority to make grants of deferred stock units to current and future non-employee directors.

At PNC's 2001 annual meeting, shareholders approved amendments to the Corporation's 1997 Long-Term Incentive Award Plan which, among other things, added non-employee directors as eligible persons for all awards available under the plan, except incentive stock options. Under the amended plan, the Board's Nominating and Governance Committee is given the authority to make awards to non-employee directors.

Following the 2001 annual meeting of shareholders, the Committee granted nonstatutory stock options covering 4,000 shares of Common Stock to each non-employee director and awarded incentive shares to each non-employee director in the form of 1,000 restricted shares of Common Stock. The nonstatutory stock options have an exercise price equal to the average of the high and low prices of a share of Common Stock on the date of grant, a term of ten years, and are subject to a one-year vesting period for the restricted shares. One-half vested upon the director's completion of the term of office which began on April 24, 2001 and one-half will vest upon the director's completion of the term of office which began upon his or her election at the 2002 annual meeting. During the vesting period, the non-employee director receives dividends on, and has the right to vote, the restricted shares.

Prior to vesting, the options and restricted shares are subject to forfeiture if the director leaves the Board for any reason other than death, disability, or the termination of his or her service as a director due to a Board policy which requires the director to resign or retire, or failure to be re-elected at the annual meeting. Once vested, neither the options nor the restricted shares are subject to forfeiture for any reason.

Following the 2002 annual meeting, the Committee met to consider possible awards to non-employee directors under the 1997 Long-Term Incentive Award Plan, as amended. After receiving guidance from its independent compensation consultant, the Committee approved the grant of nonstatutory stock options covering 4,000 shares of Common Stock to each non-employee director elected at the 2002 annual meeting. These options have the same material features as those granted in 2001.

Each non-employee director is also eligible to participate in a charitable matching gift program, under which his or her personal gifts to qualifying charitable organizations are matched up to an annual aggregate dollar amount of $5,000. In addition, PNC, its subsidiaries, and the PNC Foundation, a tax-exempt private foundation created by PNC's principal banking subsidiary, make other grants and contributions to various nonprofit and charitable organizations. In some cases, directors or executive officers of the Corporation serve as officers, trustees, or directors of these organizations. To the Corporation's knowledge, the aggregate grants and contributions made by PNC, its subsidiaries, and the PNC Foundation during 2002 to any one of such nonprofit or charitable organizations did not exceed five percent of that organization's 2002 consolidated gross revenues.

The Nominating and Governance Committee intends to review the total compensation package of non-employee directors on a regular basis, with the assistance of its independent compensation consultant. In order to maintain the competitiveness of that compensation package, the Nominating and Governance Committee currently intends to make nonstatutory stock option grants following each annual meeting to each non-employee director elected at the meeting. The size of the option grant will be determined each year, and may be adjusted in light of competitive practices and other factors. The Committee may also make other grants and awards to non-employee directors under the 1997 Long-Term Incentive Award Plan, as amended.

Mr. O'Brien, the retired chairman of the Corporation's Board of Directors, retired as an employee of the Corporation on April 30, 2000 and relinquished the position of chief executive officer. Mr. O'Brien relinquished the position of chairman on May 1, 2001. As the retired chief executive officer of the Corporation, certain benefits were made available to Mr. O'Brien during 2002. These benefits include: office space and secretarial services; automobile and aircraft use; tax and financial planning services; club memberships; the payment of net premiums in connection with the Corporation's Key Executive Equity Plan, a split-dollar insurance arrangement; the maintenance of security devices at his personal residence; and reimbursement for certain tax liabilities. During 2002, the aggregate incremental cost to the Corporation of Mr. O'Brien's automobile and aircraft use, tax and financial planning services, security devices, and club memberships was approximately $117,445. Beginning in 2003, the Corporation will no longer assume the cost of Mr. O'Brien's automobile use, tax and financial planning services, home security devices, or certain club memberships. The 2002 net premiums paid by the Corporation in connection with the Key Executive Equity Plan on behalf of Mr. O'Brien were $208,212. During 2002, Mr. O'Brien received reimbursement for income tax liabilities related to the Corporation's payment of these premiums in the amount of $89,234; Mr. O'Brien also received reimbursement for other income tax liabilities in the amount of $1,500.

For services provided on or after May 1, 2000 as a member of the Corporation's Board of Directors, Mr. O'Brien is compensated on the same basis as other non-employee directors. In addition, during 2002 Mr. O'Brien received compensation as a director of BlackRock, Inc. ("BlackRock"), a majority-owned investment management subsidiary of the Corporation that is listed on the New York Stock Exchange under the symbol "BLK." Mr. O'Brien elected to receive shares of BlackRock class A common stock (and cash in lieu of fractional shares) having an aggregate value of $50,000 in lieu of the cash retainer otherwise payable to him. During 2002, Mr. O'Brien also received $40,000 for his services as a director of PNC Equity Management Corp, an indirect, wholly-owned subsidiary of the Corporation.

COMMON STOCK PURCHASE GUIDELINE

In 1995, upon the recommendation of the Nominating and Governance Committee, the Board of Directors adopted a Common Stock purchase guideline, which provides that each non-employee director annually purchase Common Stock in an amount equal to twenty-five percent of the annual retainer fee then in effect. This guideline may be satisfied through open market purchases, participation in the Corporation's Dividend Reinvestment and Stock Purchase Plan, or investments in phantom shares of Common Stock in the Directors Deferred Compensation Plan. Acting upon the recommendation of the Nominating and Governance Committee, the Board amended the Common Stock purchase guideline at its meeting on February 20, 2003 to exempt from the guideline any non-employee director who holds at least 5,000 shares of Common Stock and/or phantom Common Stock units as of the last business day of the preceding calendar year. This exemption became effective for non-employee directors who met the required ownership level as of December 31, 2002. Each non-employee director subject to the guideline has complied, or has committed to comply, with it.

SECURITY OWNERSHIP OF DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

The following table, captioned "Security Ownership of Directors, Nominees and Executive Officers," sets forth information concerning beneficial ownership of the Corporation's Common Stock as of February 28, 2003 by each director and nominee for election as a director, each of the executive officers named in the Summary Compensation Table on page 20, and all directors, nominees and executive officers of the Corporation as a group. Except as otherwise noted, each individual exercises sole voting and investment power over the shares of Common Stock shown. The separate table captioned "Common Stock Unit Ownership" shows phantom or deferred Common Stock units owned by the individual or group through the compensation or benefit plan identified in the corresponding footnote. The Common Stock units can be settled only in cash and carry no voting rights. The number of shares of Common Stock shown in the Security Ownership table as beneficially owned by each director and executive officer is determined under the rules of the SEC and the information is not necessarily indicative of beneficial ownership for any other purpose. For purposes of the

Security Ownership table, beneficial ownership includes any shares of Common Stock as to which the individual has sole or shared voting power or investment power and also any shares of Common Stock that the individual has the right to acquire within 60 days of February 28, 2003 through the exercise of any option, warrant or right.

SECURITY OWNERSHIP OF DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

Name	Amount and Nature of Beneficial Ownership Common Stock*
Paul W. Chellgren	14,967(1)(2)
Robert N. Clay	13,793(2)
J. Gary Cooper	115
George A. Davidson, Jr.	19,499(2)
William S. Demchak	45,110
Joseph C. Guyaux	332,564(3)(4)(5)
Richard B. Kelson	115
Bruce C. Lindsay	14,805(2)
Anthony A. Massaro	115
Thomas H. O'Brien	732,759(2)(3)(4)(6)
Jane G. Pepper	10,473(2)
James E. Rohr	1,025,422(3)(4)(7)
Timothy G. Shack	316,763(4)(8)
Lorene K. Steffes	9,526(2)(8)
Dennis F. Strigl	8,705(2)
Stephen G. Thieke	1,115(8)
Thomas J. Usher	14,773(2)(8)
Milton A. Washington	29,859(2)
Helge H. Wehmeier	16,585(2)
Thomas K. Whitford	278,494(3)(4)(8)
Directors, nominees and executive officers as a group (28 persons)*/**	3,307,959(1)(2)(3)(4)(5)(6)(7)(8)(9)(10)

Name	Common Stock Unit Ownership
Paul W. Chellgren	13,234(a)(b)
Robert N. Clay	10,777(a)(b)
J. Gary Cooper	0
George A. Davidson, Jr.	5,997(a)
William S. Demchak	7,085(c)
Joseph C. Guyaux	1,254(d)
Richard B. Kelson	212(b)
Bruce C. Lindsay	4,798(a)(b)
Anthony A. Massaro	107(b)
Thomas H. O'Brien	37,187(a)(d)
Jane G. Pepper	3,642(a)(b)
James E. Rohr	46,286(c)(d)
Timothy G. Shack	1,801(c)
Lorene K. Steffes	1,198(a)(b)

Dennis F. Strigl	1,621(b)
Stephen G. Thieke	0
Thomas J. Usher	8,306(a)(b)
Milton A. Washington	9,116(a)
Helge H. Wehmeier	8,293(a)(b)
Thomas K. Whitford	10,778(c)(d)
Directors, nominees and executive officers as a group (28 persons)*/**	174,606(a)(b)(c)(d)

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* As of February 28, 2003, there were 283,148,371 shares of the Corporation's Common Stock issued and outstanding. The number of shares of Common Stock held by each individual is less than 1% of the outstanding shares of Common Stock; the total number of shares of Common Stock held by the group is approximately 1.16% of the class. These percentages were calculated by adding shares subject to employee or non-employee director stock options to the foregoing number if the options were either exercisable as of February 28, 2003 or exercisable within 60 days of that date. No director, nominee or executive officer beneficially owns shares of preferred stock of the Corporation.

** Certain of the directors and executive officers also own shares of BlackRock class A common stock. The number of such shares beneficially owned by individuals listed in the Security Ownership table are as follows: Ms. Pepper (1,000); and Messrs. Clay (7,500); Davidson (10,000); Lindsay (7,500); O'Brien (13,590); Rohr (10,000); Washington (10,000); and Wehmeier (5,501). Of the 7,500 shares held by Mr. Clay, 2,500 are held indirectly by him as a trustee. The total number of such shares owned by directors and executive officers as a group (nine persons) is 75,091. The number of shares of BlackRock class A common stock held by each individual is less than 1% of the outstanding shares as of February 28, 2003; the total number of such shares held by the group is also less than 1% of the class.

(1) Includes shares held in the PNC Bank Kentucky, Inc. Directors Deferred Compensation Plan.

(2) Includes 8,000 shares subject to non-employee director nonstatutory stock options exercisable within 60 days of February 28, 2003.

(3) Includes shares held in the Corporation's Incentive Savings Plan, a qualified defined contribution plan.

(4) Includes shares subject to employee nonstatutory stock options held by Mr. O'Brien and the executive officers and either exercisable as of February 28, 2003 or exercisable within 60 days of that date. The shares subject to such options are as follows: Messrs. O'Brien (326,917 shares); Rohr (659,462 shares); Guyaux (226,814 shares); Shack (182,178 shares); and Whitford (167,039 shares). The aggregate number of shares subject to such options for the remaining nine executive officers is 260,712. In the case of Messrs. Rohr, Guyaux, Shack, and Whitford and six of the remaining nine executive officers, the share numbers include restricted shares of Common Stock awarded on February 19, 2003 as part of the 2002 annual incentive award.

(5) Includes 15 shares held indirectly as custodian for grandchild.

(6) Includes 1,000 shares owned by spouse, as to which the individual disclaims beneficial ownership.

(7) Includes 400 shares held indirectly as custodian for daughter.

(8) Includes shares held jointly with spouse.

(9) Includes, for eleven non-employee directors, an aggregate total of 88,000 shares subject to nonstatutory stock options exercisable within 60 days of February 28, 2003.

(10) Includes ten shares held indirectly as custodian for son, and six shares held indirectly by spouse as custodian for daughter, as to which six shares the individual disclaims beneficial ownership.

COMMON STOCK UNIT OWNERSHIP TABLE FOOTNOTES

(a) Includes phantom Common Stock units credited to an account established under the Corporation's Outside Directors Deferred Stock Unit Plan.

(b) Includes phantom Common Stock units credited to an account established under the Corporation's Directors Deferred Compensation Plan.

(c) Includes phantom Common Stock units credited to an account established under the Corporation's Deferred Compensation Plan. In the case of Mr. Demchak, includes restricted phantom Common Stock units deferred on February 19, 2003 as part of the 2002 annual incentive award.

(d) Includes phantom Common Stock units held in the Corporation's Supplemental Incentive Savings Plan, a non-qualified excess defined contribution plan.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

As of March 7, 2003, based solely on Schedules 13D and 13G filed with the SEC under the Securities Exchange Act of 1934 ("Exchange Act"), the following persons are known by the Corporation to be the beneficial owners of more than five percent of Common Stock. The numbers shown on the table represent holdings as of December 31, 2002 and should be interpreted in light of the related footnotes.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Capital Research and Management Company(1) 333 South Hope Street Los Angeles, CA 90071	15,616,800(2)	5.5%(2)

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(1) The shares of Common Stock reported by the Capital Research and Management Company ("Capital Research") on a Schedule 13G filed with the SEC are owned by accounts under the discretionary investment management of Capital Research. Capital Research, a registered investment adviser that manages The American Funds Group of mutual funds, does not own any PNC shares for its own account.

(2) Capital Research has represented to PNC in writing that, consistent with the requirements for the use of Schedule 13G, these shares of Common Stock are held solely for investment purposes in the ordinary course of business and not with the purpose or effect of changing or influencing control. Capital Research has disclaimed beneficial ownership of all shares pursuant to SEC Rule 13d-4.

TRANSACTIONS INVOLVING DIRECTORS AND EXECUTIVE OFFICERS

Certain directors, executive officers, and/or their associates were customers of and had transactions with the Corporation or its subsidiaries ("Company") during 2002. Transactions that involved loans or commitments by subsidiary banks were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features.

FAMILY RELATIONSHIPS

There is no family relationship as defined in the SEC's rules between any executive officer or director and any other executive officer or director. Family relationships exist between certain of PNC's executive officers or directors and some of the approximately 24,000 employees of PNC and its various subsidiaries. These employees participate in compensation and incentive plans or arrangements on the same basis as other similarly situated employees. Specific information concerning the compensation paid during 2002 to certain of these employees is provided below.

Norma Hajduk, a Senior Vice President of Hilliard Lyons and Director of Market Sales for PNC Investments, is the sister of Timothy G. Shack, Executive Vice President and Chief Information Officer of PNC. In 2002, Ms. Hajduk received salary of $210,000 and bonuses of $9,000.

Cheryl Kraft, a Vice President and program operations manager in Regional Community Banking, is the sister-in-law of Joseph C. Guyaux, President of PNC. In 2002, Ms. Kraft received salary of $62,654.

Thomas H. O'Brien, Jr., a Vice President and senior investment associate of PNC Equity Management Corp., a PNC subsidiary engaged in private equity activities ("EMC"), is the son of Thomas H. O'Brien, a director and retired chairman and chief executive officer of PNC, and a director of EMC. In 2002, Mr. O'Brien, Jr. received total cash compensation of $111,346 in addition to the incentives described below. He also participated in various incentive programs, including certain leveraged equity co-investment plans that allow certain employees of EMC to co-invest with PNC in private equity transactions through employee partnerships that borrow from a PNC subsidiary 99% of the funds to be invested (the "Co-Investment Plans") and certain carried interest plans pursuant to which employees invest in the general partners of certain investment partnerships that EMC has established and share in the investment returns, profits and, in one case, fees earned by those general partners (the "Carried Interest Plans"). These programs were implemented beginning in 1998 and generally contain features utilized in plans of other financial services firms. Mr. O'Brien, Jr. has committed to contribute an aggregate of $21,757 under the Co-Investment Plans (of which 63% had been invested as of December 31, 2002), had an aggregate pro rata share of loans outstanding to the partnerships under the Co-Investment Plans of $1,105,686 as of December 31, 2002 (with a weighted average interest rate of 4.8%), and received distributions of approximately

$1,611 from the co-investment partnerships during 2002. The highest balance during 2002 of his pro rata share of such loans was $1,221,991. Under certain circumstances, there may be limited recourse to the participating employees with respect to the loans to the partnerships. Recourse to Mr. O'Brien, Jr., if any, under those circumstances would not have exceeded $353,955 as of December 31, 2002, and the highest such recourse amount during 2002 was $498,497. Mr. O'Brien, Jr. has committed to contribute an aggregate of $117,871 under the Carried Interest Plans (of which 22% has been invested as of December 31, 2002) and he received aggregate distributions of $133,907 during 2002 pursuant to such plans.

Jeffrey Troutman, a Vice President and a sales manager for PNC's Treasury Management business, is the son-in-law of Thomas H. O'Brien, a director and retired chairman and chief executive officer of PNC. In 2002, Mr. Troutman received salary of $88,769 and bonuses of $88,681. Mr. Troutman also was granted nonstatutory stock options under PNC's 1997 Long-Term Incentive Award Plan, as amended, to purchase 500 shares of Common Stock at an exercise price of $57.10.

Each of the foregoing individuals also participates in other customary employee benefit plans and programs.

INDEMNIFICATION

Pursuant to its By-Laws, the Corporation provides indemnification to its directors, officers and, in some instances, employees and agents against certain liabilities incurred as a result of their service on behalf of or at the request of the Corporation; the Corporation also advances on behalf of covered individuals costs incurred in defending against certain claims, subject to written undertakings by each such individual to repay all amounts so advanced if it is ultimately determined that the individual is not entitled to indemnification. The Corporation also has obtained directors and officers insurance providing coverage for them against certain liabilities and other expenses resulting from their service on behalf of or at the request of the Corporation. These By-Laws provisions and insurance coverage provide a potentially significant financial benefit to the Corporation's directors and executive officers. During 2002, the Corporation advanced expenses pursuant to these By-Laws provisions on behalf of several of its current and former executive officers and directors in connection with various matters, including those described under "Legal Proceedings," beginning on page 31.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Corporation's directors, its executive officers, and persons who own more than ten percent of a registered class of the Corporation's equity securities (currently there are no such shareholders) to file with the Corporation, the SEC and the New York Stock Exchange initial reports of ownership and reports of changes in ownership of any equity securities of the Corporation. With respect to 2002, to the best of the Corporation's knowledge, all required report forms were filed on a timely basis. In making this statement, the Corporation has relied in part on the written representations of its current and certain of its former non-employee directors and certain of its current and former executive officers, and on copies of the reports provided to the Corporation.

COMPENSATION OF EXECUTIVE OFFICERS

PERSONNEL AND COMPENSATION COMMITTEE REPORT

The following is the Personnel and Compensation Committee's report to shareholders on the Corporation's executive compensation policies with respect to compensation reported for fiscal year 2002. In accordance with the rules of the SEC, this report shall not be incorporated by reference into any of the Corporation's future filings made under the Exchange Act or under the Securities Act of 1933 ("Securities Act"), and shall not be deemed to be soliciting material or to be filed with the SEC under the Exchange Act or the Securities Act.

PERSONNEL AND COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION FOR FISCAL YEAR 2002

INTRODUCTION

The Personnel and Compensation Committee of The PNC Financial Services Group, Inc. Board of Directors is composed solely of non-employee directors. No Committee member can be a current or former officer of the Corporation.

One of the Committee's key responsibilities is to provide oversight of the Corporation's executive compensation program. The Committee conducts regular, comprehensive reviews of the Corporation's executive compensation program and establishes the annual compensation of the Corporation's executive officers. The Committee also takes action, or recommends that the Board take action, regarding the adoption or amendment of executive compensation or benefit plans. The Committee also administers certain executive compensation plans maintained by the Corporation.

The Corporation's executive compensation program is designed to: attract, motivate and retain executive officers who can make significant contributions to the Corporation's long-term success; align the interests of executive officers with those of shareholders; and place a significant proportion of our executive officers' total compensation at risk by tying it to the Corporation's financial and common stock price performance.

The Committee is assisted by both an independent compensation consultant and the Corporation's internal support staff. The Committee also uses comparative compensation data for the financial services industry and key management positions obtained from nationally recognized compensation consulting firms.

This compensation data covers a Peer Group of selected financial services companies that compete with the Corporation. The Committee considers the companies included in the Peer Group to be indicative of the Corporation's financial services competitors. The appropriateness of the Peer Group's composition is reviewed and approved by the Committee at least annually.

The Committee uses the Peer Group as its primary tool to compare performance and compensation when making key compensation-related decisions. The companies included in the Peer Group do not necessarily include the same companies included in the S&P 500 Banks Index used for the Common Stock Performance Graph on page 27. The Common Stock Performance Graph, however, also shows the median total shareholder return for the 2002 Peer Group companies listed in the footnote to the graph.

The three primary components of the Corporation's executive compensation program are: base salary; annual incentive awards; and long-term incentive awards. The following three sections of this report discuss each of these components in turn.

BASE SALARY

The base salaries of executive officers are generally targeted at the middle of the competitive marketplace. The Corporation's human resources staff determines the market rate for an executive position annually. In making this determination, the human resources staff considers a number of factors, including: relevant industry salary practices; the position's complexity and level of responsibility; the position's importance to the Corporation in relation to other executive positions; and the competitiveness of an executive's total compensation.

Specific compensation data obtained from Peer Group proxy statements is used in establishing the salary of the Corporation's Chief Executive Officer.

Subject to the Committee's approval, the level of an executive officer's base salary is determined on the basis of relevant comparative compensation data and the Chief Executive Officer's assessment of the executive's performance, experience, demonstrated leadership, job knowledge, and management skills.

ANNUAL INCENTIVE AWARDS

Annual incentive awards are bonuses designed to provide a linkage among executive performance, annual objective performance measures, and long-term increases in shareholder value.

For the 2002 award period, annual incentive awards were made to Mr. Rohr and the other four executive officers listed in the compensation tables beginning on page 21 under the Corporation's 1996 Executive Incentive Award Plan, as amended. The 1996 Executive Incentive Award Plan is designed to give the Committee the flexibility to make annual incentive awards that are comparable to those found in the marketplace in which the Corporation competes for executive talent. This plan is also designed to permit the payment of annual incentive awards that are intended to qualify as deductible, performance-based compensation under Section 162(m) of the Internal Revenue Code.

For 2002, the five participants in this plan share in a compensation pool equal to one-half of one percent of the Corporation's 2002 consolidated pre-tax net income. This amount is determined in accordance with generally accepted accounting principles, after adjustment for unusual, infrequently occurring or extraordinary items or cumulative effects of changes in accounting principles, as defined under generally accepted accounting principles.

During the first quarter of 2002, the Committee determined incentive award amounts. An incentive award amount is the maximum percentage of the compensation pool a participant could receive for the 2002 award period. No participant could be assigned a percentage of the compensation pool greater than 40% and the sum of all percentages assigned cannot exceed 100% of the compensation pool. The maximum percentage of the award pool a participant can receive was increased from 35% to 40% beginning in 2001, pursuant to an amendment to the 1996 Executive Incentive Award Plan approved by shareholders at PNC's 2001 annual meeting.

At PNC's 2001 annual meeting, shareholders also approved amendments to the 1996 Executive Incentive Award Plan which authorize the Committee to grant incentive awards that are payable entirely in cash, entirely in shares of the Corporation's common stock, or in a combination of cash and shares of common stock. Shares of common stock issued pursuant to the terms of an incentive award may be subject to such transfer restrictions or forfeiture provisions as the Committee may specify. To the extent that an incentive award is paid in the form of shares of common stock, the amended 1996 Executive Incentive Award Plan also authorizes the issuance of additional shares of common stock to the participant. The number of additional shares of common stock awarded cannot exceed 25% of the number of shares issued to the participant in full or partial payment of the participant's share of the compensation pool.

The Committee may permit deferral of the payment of any incentive award on such terms as the Committee deems appropriate. In addition, a participant may defer the payment of any incentive award and the issuance of additional stock pursuant to any applicable deferred compensation plan of the Corporation. In either case, any additional amounts accrued on account of such deferred payment will be based on a

reasonable rate of interest or the actual rate of return of one or more predetermined investments specified by the Committee or pursuant to the terms of the deferred compensation plan.

With respect to the five participants in the 1996 Executive Incentive Award Plan and certain other senior executive officers, the Committee exercised its authority to direct the payment of 25% of each incentive award for 2002 in the form of restricted shares of PNC common stock or to permit such amount to be deferred into restricted phantom PNC common stock units under the Corporation's Deferred Compensation Plan. This restricted stock/phantom unit portion was increased by 25% to reflect the resulting risk of forfeiture and lack of liquidity. The aggregate dollar value of the restricted shares or restricted phantom PNC common stock units received by each participant in the 1996 Executive Incentive Award Plan is shown in the "Restricted Stock Award ($)" column of the Summary Compensation Table for 2002, on page 21. The amount shown for Mr. Demchak also includes the dollar value (computed using the closing share price on the date of the award, or $47.00) of an award of 45,000 restricted shares of common stock made to him in connection with his acceptance of an offer of employment from the Corporation.

The Committee believes that the payment of a portion of the annual incentive award in restricted shares of common stock or the deferral into restricted phantom PNC common stock units helps to strengthen the linkage between the interests of PNC's executive officers and the interests of the Corporation's shareholders. The Committee has authorized a similar program for executive officers not participating in the 1996 Executive Incentive Award Plan.

During the first quarter of 2003, the Committee took the actions necessary to arrive at the amount of the annual incentive award for each of the five plan participants. Among other things, the Committee: confirmed the identity of the executive officers eligible to participate in the plan; certified in writing the size of the compensation pool for the 2002 award period in reliance upon financial information supplied by the Corporation's officers; and certified in writing the amount of the incentive award authorized under the plan to be paid to each participant. The final amount of an incentive award is determined by the maximum percentage of the compensation pool which could be paid to the participant and such qualitative and quantitative performance factors as the Committee deemed relevant in adjusting the incentive award payable to the level explained in the Summary Compensable Table on page 21 and the accompanying footnotes for the year 2002, for Messrs. Rohr, Guyaux, Demchak, Shack, and Whitford. As explained above, a portion of the 2002 incentive award was paid in the form of restricted shares of PNC common stock or deferred as restricted phantom PNC common stock units.

For those executive officers who do not participate in the 1996 Executive Incentive Award Plan, the target amount which may be payable as an annual incentive award is based on an analysis of competitive Peer Group pay practices and is expressed as a percentage of base salary.

When the Committee established the 2002 target annual incentive awards, the Committee assumed that the 2002 target performance goal would be achieved. Achievement of that goal would result in approximately median total cash compensation.

There are a number of factors that can affect the amount of an executive officer's incentive award payment, including:

- "EPS Goal"--This goal is based on the Corporation's earnings per share in relation to the Corporation's budget. Management established, subject to Committee approval, the target EPS Goal for 2002;

- "Relative Goals"--These goals are based primarily on the Corporation's return on average common shareholders' equity relative to the Peer Group, with additional consideration given to the Corporation's relative return on average assets;

- Business financial performance relative to that business's budget;

- The Chief Executive Officer's assessment of an executive officer's performance; and

- The Committee may exercise its discretion to increase, reduce, or eliminate an executive officer's award, based on its assessment of the officer's performance. The Committee cannot, however, increase the incentive award amount a participant may receive under the 1996 Executive Incentive Award Plan beyond the executive's assigned percentage of the compensation pool. Among the factors the

Committee considered with respect to 2002 were: effective communication with PNC's regulatory agencies; the maintenance of effective financial reporting processes; and the effective implementation of strengthened corporate governance principles and risk management procedures.

LONG-TERM INCENTIVE AWARDS

Stock option grants, restricted stock and other incentive share awards are made under the Corporation's 1997 Long-Term Incentive Award Plan, as amended. The purposes of the 1997 Long-Term Incentive Award Plan are to attract, retain and motivate executives of outstanding ability and to promote the identification of their interests with those of the Corporation's shareholders.

The number of stock options granted by the Committee to executive officers is determined as follows. A number of stock options is established that would position the executive officer competitively relative to the Peer Group in terms of long-term compensation. This number is called the baseline amount and is used as a reference point for upward and downward adjustments to the stock option grant level based on the Corporation's total shareholder return in comparison with the Peer Group. If the Corporation's total shareholder return is significantly higher or lower than the Peer Group's median return, the number of options granted may be adjusted above or below the baseline amount. The baseline amount is reestablished periodically in order to maintain the Corporation's competitiveness in long-term compensation.

The Corporation's total shareholder return is based on its common stock appreciation and dividend payments for the three most recent years. For example, the 2002 option grants were based on common stock appreciation and dividend payments for the period 1999 through 2001. The 2002 grants were 5% above the established baseline to reflect the Corporation's total shareholder return relative to its Peer Group.

Nonstatutory stock options with a "reload" feature were first granted to a select group of senior officers by the Personnel and Compensation Committee on February 19, 1997. All options granted to the named executive officers and selected other senior officers by the Committee during 2002 also have a reload feature. If options with a reload feature are exercised while the holder is still an employee using common stock which has been held for at least six months, the options exercised are replaced or "reloaded" with a new, at-the-market option. A new option is issued for each share of common stock used to satisfy the exercise price and meet any associated income tax withholding obligation. Options can be reloaded only once; a reload option cannot be replaced when it is exercised. The reload option normally will become exercisable in one year and will have the same remaining term as the option that was exercised. The Committee believes that the reload option feature advances the Corporation's goal of increased common stock ownership by senior executives by encouraging the early exercise of stock options and the retention of shares.

As previously disclosed in the Corporation's 2001 annual meeting proxy statement, in 2000 the Committee granted incentive share awards under the Corporation's 1997 Long-Term Incentive Award Plan to certain PNC executive officers. Mr. Rohr and each of the executive officers listed in the compensation tables following this report (except Mr. Demchak, who was not employed by the Corporation until 2002) received such incentive share awards, which provided for the issuance of shares of common stock upon the achievement of one or more performance goals. The three-year performance period for these grants ended on December 31, 2002.

Following the expiration of the performance period, the Committee reviewed information concerning the attainment of certain of the performance goals and certified in writing that the Corporation had achieved certain performance levels with respect to the total shareholder return and return on common equity performance goals. Consistent with the total shareholder return and return on common equity performance levels achieved, the Committee authorized the issuance to each grantee of 50% of the incentive shares granted at the target level in 2000, in the form of shares of PNC common stock, reduced, on a share for share basis, by the number of shares, if any, issued to that grantee under the terms of incentive share grants made in 1998. One-half of the shares (net of shares withheld to satisfy income tax withholding obligations) were issued on February 6, 2003, free of any restrictions, and the remaining one-half of the shares were issued in the form of restricted shares that will vest upon the end of a restricted period that runs through December 31, 2003. The dollar value of the shares awarded (including restricted shares and shares withheld to satisfy income tax

withholding obligations) to each of the executive officers other than Mr. Demchak included in the Summary Compensation Table on page 21 is shown in the column captioned "LTIP Payouts."

Additional information about the grants and awards made by the Committee under the 1997 Long-Term Incentive Award Plan, as amended, is included in the Summary Compensation Table and in the Individual Option Grant Table, which follow this report.

CHIEF EXECUTIVE OFFICER COMPENSATION

When deciding the compensation to be paid to the Corporation's Chief

Executive Officer, the Committee acts privately, without the Chief Executive Officer or other officers present. As appropriate, the Committee will confer with its independent compensation consultant to determine whether the Corporation's executive compensation program is consistent with marketplace practices linking pay for performance. In general, the Committee considers the Corporation's financial performance and Peer Group financial performance and compensation data when making decisions regarding the Chief Executive Officer's compensation. The Committee also considers the Chief Executive Officer's leadership, decision-making skills, experience, knowledge, communication with the Board, employees, and regulatory agencies, and strategic recommendations, as well as the Corporation's positioning for future performance. The Chief Executive Officer's effectiveness in enhancing the corporate governance and risk management structures of the Corporation is also considered. The Committee does not assign relative weights to these factors.

The Committee's significant decisions regarding the Chief Executive Officer's compensation are reported to and discussed with the full Board. These discussions are held privately, without the Chief Executive Officer or any of the Corporation's other officers present. Final decisions regarding the Chief Executive Officer's compensation are reached by the Committee after due consultation with the Board's other non-management directors.

The following portions of the report will discuss the Committee's decisions regarding Mr. Rohr's compensation for 2002.

Mr. Rohr's base salary of $850,000 was unchanged for 2002.

In deciding upon the size of Mr. Rohr's 2002 annual incentive award payment the Committee took into account the leadership and communication skills he displayed in responding effectively and decisively to the requirements of the written agreements that the Corporation and its principal banking subsidiary entered into with their respective principal bank regulatory agencies. The Committee balanced against Mr. Rohr's many positive accomplishments the need to hold him ultimately accountable, as the Corporation's Chief Executive Officer, for the regulatory difficulties that evolved during the course of 2002.

The Committee also recognized that 2002 was a difficult operating environment due to the slow pace of the economy and weak equity market conditions. In that context, and taking into account the regulatory issues that were satisfactorily resolved prior to year-end 2002, the Committee considered these accomplishments, among others:

- PNC earned $1.2 billion and generated a 19% return on equity in 2002;

- Corporate governance and risk management structures were enhanced;

- Regulatory relations were improved and strengthened;

- Customer satisfaction levels approached all-time highs in many businesses;

- More non-sales employees referred new business than ever before, evidencing the continued vitality of a strong sales culture among employees; and

- PNC's regulatory capital and liquidity ratios were strengthened.

After considering all of these factors carefully and consulting with the Board's other non-management directors in executive session, the Committee authorized the payment to Mr. Rohr of $1.2 million as an annual incentive award for 2002. Mr. Rohr received $900,000 of this award in the form of cash and the remainder of the amount, together with the 25% premium, was awarded to him in the form of restricted shares of PNC common stock issued under the Corporation's 1996 Executive Incentive Award Plan, as amended.

Please refer to footnotes (a) and (c) of the Summary Compensation Table on page 22 for additional information.

As for Mr. Rohr's long-term incentive compensation, he received his 2002 stock option grant at a level that was 5% higher than the baseline level set for his 2001 grant.

TAX POLICY

Section 162(m) of the Internal Revenue Code disallows with certain exceptions a federal income tax deduction for compensation over $1 million paid to the Chief Executive Officer and any of the executive officers included in the compensation tables following this report, provided that they are serving in that capacity as of the last day of the Corporation's fiscal year.

One exception to Section 162(m)'s disallowance of a federal income tax deduction for compensation over $1 million applies to performance-based compensation paid pursuant to shareholder-approved plans. Awards made under the 1996 Executive Incentive Award Plan, as amended, and certain awards under the 1997 Long-Term Incentive Award Plan, as amended, can generally be made eligible for the performance-based exception and therefore eligible as a federal income tax deduction for the Corporation.

Although the Committee keeps in mind the desirability of controlling the Corporation's nondeductible compensation expense, the Committee also believes that it is equally important to maintain the flexibility and competitive effectiveness of the Corporation's executive compensation program. Therefore, the Committee from time to time decides to make grants and awards which may not be deductible for federal income tax purposes due to the provisions of Section 162(m).

CONCLUSION

Based upon its review of the Corporation's executive compensation program and the advice and guidance that the Committee has received from its independent compensation consultant, the Committee believes that the program's basic structure is appropriate, competitive and effective to serve the purposes for which it was established.

MEMBERS OF THE COMMITTEE:

Thomas J. Usher, Chairman
Dennis F. Strigl, Vice Chairman
Paul W. Chellgren
Milton A. Washington

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Usher, Chellgren, Strigl, and Washington, none of whom are officers or former officers of the Corporation or any of its subsidiaries, served as members of the Personnel and Compensation Committee during 2002. In addition, Mr. William R. Johnson and Mr. W. Craig McClelland, neither of whom is still serving as a director, each served as a committee member during a portion of

2002.

Certain members of the Personnel and Compensation Committee and their associates were customers of and had transactions with the Corporation or its subsidiaries during 2002. Transactions that involved loans or commitments by subsidiary banks were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features.

CHANGE IN CONTROL AND OTHER ARRANGEMENTS

The Corporation has entered into change in control severance agreements with each of the executive officers named in the Summary Compensation Table and certain other selected executive officers. If the executive officer's employment is terminated by the Corporation without cause, or by the executive officer for good reason, during a period of three years following a change in control of the Corporation, the executive officer will receive severance benefits, including: (i) a lump sum payment of three times the executive officer's annual base salary and bonus; (ii) the payment of at least the target bonus for the executive officer for the fiscal year during which the executive officer's employment is terminated; (iii) three years of additional benefits under certain of the Corporation's retirement and benefit plans; and (iv) a payment to reimburse the executive officer for any excise taxes on severance benefits that are considered excess parachute payments under the Internal Revenue Code of 1986, as amended ("Code"). The pension benefits payable to an executive officer may be increased depending upon the officer's age on the date of termination. Each agreement requires the executive officer not to use or disclose any of the Corporation's confidential business information and, if the executive officer receives the above severance benefits, not to employ or solicit any officer of the Corporation during the year following the executive officer's termination. Each agreement terminates when the executive officer reaches age 65, and the Corporation may, upon one year's advance notice, simultaneously terminate all of such change in control severance agreements. The Corporation has entered into change in control severance arrangements with certain other selected officers under which they will receive severance benefits similar to those described above, but at a lower level of payment and with a shorter coverage period. The Corporation also typically includes provisions in its stock option, restricted stock and other incentive share awards providing certain protections, such as accelerated vesting, in the event of a qualifying termination of employment following or in anticipation of a change in control.

The Corporation's displaced employee assistance plans for employees generally provide an increase in severance benefits following a change in control under certain circumstances. If an employee's employment is terminated by the Corporation within two years following consummation of a change in control, the employee will receive a lump sum payment equal to twice the benefits to which such employee otherwise would be entitled under the applicable plan. In addition to that lump sum payment, certain other selected officers and employees will become eligible for an additional severance benefit under similar circumstances, based on their variable compensation.

SUMMARY COMPENSATION TABLE*

The Summary Compensation Table shows, for the years 2000 through 2002 (except in the case of Messrs. Demchak and Shack), the compensation paid or awarded to Mr. Rohr, the Corporation's Chairman and Chief Executive Officer, and to the Corporation's next four most highly compensated, policy-making executive officers; the inclusion of those four executive officers in this group is based on salary and bonus earned during 2002. The amounts shown in the "Salary" column include the dollar amounts attributable to holidays, vacation time, and paid time off. Mr. Rohr and the four executive officers are referred to collectively for purposes of the compensation tables as the Corporation's "named executive officers." For a discussion of the Corporation's executive compensation program, please refer to the Personnel and Compensation Committee Report on Executive Compensation beginning on page 14.

		ANNUAL COMPENSATION			LONG-TERM COMPENSATI		
					AWARDS		
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMP ($)	RESTRICTED STOCK AWARD ($)	SECURITIES UNDERLYING OPTIONS/ SARS (#)	P
			(a)	(b)	(c)	(d)	
James E. Rohr	2002	850,000	900,000	4,149	375,000	299,512	
Chairman and	2001	850,000	1,125,000	4,015	468,750	338,740	
Chief Executive Officer	2000	836,120	2,601,000	3,690	3,862,500	277,261	
The PNC Financial Services Group, Inc.							
Joseph C. Guyaux	2002	486,538	429,000	0	178,750	101,718	
President	2001	405,769	285,500	0	118,125	63,000	
The PNC Financial Services Group, Inc.	2000	375,422	486,400	0	1,931,250	104,644	
William S. Demchak	2002+	152,885+	750,000+	8,947	2,427,500	100,000	
Vice Chairman and Chief Financial Officer							
The PNC Financial Services Group, Inc.							
Timothy G. Shack	2002	427,885	289,500	0	120,625	80,238	
Executive Vice President and	2001++	372,461	228,000	0	95,000	88,014	
Chief Information Officer							
The PNC Financial Services Group, Inc.							
Thomas K. Whitford	2002	395,192	337,500	0	140,625	81,816	
Executive Vice President and	2001	368,942	225,000	0	93,750	75,025	
Chief Risk Officer	2000	339,615	469,200	0	1,609,375	85,802	
The PNC Financial Services Group, Inc.							

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* Footnotes to the Summary Compensation Table are set forth beginning on page 22.

\+ Mr. Demchak was not an executive officer of the Corporation prior to 2002. The salary amount shown for Mr. Demchak represents the portion of his annual base salary paid to him in 2002, beginning on his first day of employment (September 9, 2002). Mr. Demchak received a guaranteed bonus of $1,000,000 for 2002, of which a portion was deferred as restricted phantom Common Stock units; please see the column captioned "Restricted Stock Award" and footnotes (a) and (c) for additional information.

++ Mr. Shack was not an executive officer of the Corporation for purposes of the

SEC's executive compensation disclosure rules prior to 2001.

FOOTNOTES TO SUMMARY COMPENSATION TABLE

(a) 25% of the named executive officer's 2002 annual incentive award was awarded to him in the form of restricted shares of Common Stock or, in the case of Mr. Demchak, deferred as restricted phantom Common Stock units under the Corporation's Deferred Compensation Plan. This restricted stock/phantom unit portion was increased by 25% to reflect the resulting risk of forfeiture and lack of liquidity. The aggregate dollar value of the restricted shares of Common Stock or restricted phantom Common Stock units awarded to each named executive officer is shown in the "Restricted Stock Award ($)" column of this table for 2002, and additional details are provided in footnote (c) and in the Personnel and Compensation Committee Report on Executive Compensation beginning at page 15, under the caption "Annual Incentive Awards."

(b) The amounts shown represent reimbursement for certain tax liabilities. None of the named executive officers received perquisites or other personal benefits, securities or property during 2002 that, in the aggregate, cost the Corporation the lesser of $50,000 or 10% of the named executive officer's salary and bonus earned during that year. Perquisites and other personal benefits that were received by the named executive officers were valued on the basis of their incremental cost to the Corporation and its subsidiaries, as prescribed by the rules of the SEC.

(c) The dollar values in this column for 2002 equal the aggregate value of the restricted shares of Common Stock awarded to or, in the case of Mr. Demchak, deferred as restricted phantom Common Stock units on February 19, 2003 as part of the 2002 annual incentive award. The dollar amount shown for Mr. Demchak also includes the value of 45,000 restricted shares of Common Stock awarded to him under the Corporation's 1997 Long-Term Incentive Award Plan, as amended, in connection with his acceptance of an offer of employment by the Corporation; the aggregate value of these shares was computed using the closing price of a share of Common Stock on the September 9, 2002 award date, or $47.00. The restricted shares were awarded to Messrs. Rohr, Guyaux, Shack and Whitford under the Corporation's 1996 Executive Incentive Award Plan, as amended, and the restricted phantom Common Stock units were deferred by Mr. Demchak under the Corporation's Deferred Compensation Plan. The named executive officers will be entitled to vote and to receive dividends on the restricted shares, as declared by the Board on Common Stock. Restricted phantom Common Stock units held in the Corporation's Deferred Compensation Plan are credited with deemed dividends, as dividends are declared by the Board on Common Stock, but they carry no voting rights and can be settled only in cash. For both the restricted shares and restricted phantom stock units, the named executive officer will forfeit the award if his employment with PNC terminates prior to the end of a three-year restricted period, except in certain limited cases. Please see footnote (a) and the Personnel and Compensation Committee Report on Executive Compensation beginning at page 15, under the caption "Annual Incentive Awards," for additional details.

As of December 31, 2002, the named executive officers beneficially held restricted shares of Common Stock as follows, with the aggregate dollar value shown as of December 31, 2002: Messrs. Rohr (85,000 shares; $3,561,500); Guyaux (39,143 shares; $1,640,092); Demchak (45,000 shares; $1,885,500) Shack (31,000 shares; $1,298,900); and Whitford (32,201 shares; $1,349,222). The per share dollar amount used to calculate these values was $41.90, the closing market price of a share of Common Stock on the New York Stock Exchange on December 31, 2002.

(d) With respect to Messrs. Rohr, Guyaux, Shack, and Whitford, the number shown in this column for 2002 includes shares of Common Stock underlying both nonstatutory stock options granted by the Personnel and Compensation Committee in its discretion during 2002 and reload nonstatutory stock options granted upon the named executive officer's exercise during 2002 of nonstatutory stock options granted by the Personnel and Compensation Committee prior to 2002 with a reload feature. The number of shares of Common Stock underlying reload options are shown in parentheses for Messrs. Rohr (26,512); Guyaux (17,718); Shack (11,988); and Whitford (13,566). For more information about reload options, please see the "Individual Option Grants--2002" table on page 24 and the relevant footnotes.

(e) The dollar values in this column were calculated by multiplying the number of shares of Common Stock issued to the named executive officer on February 6, 2003 under the Corporation's 1997 Long-Term Incentive Award Plan, as amended, by the average of the high and low sale prices of a share of Common Stock on the New York Stock Exchange on that date ($42.94). The number of shares of Common Stock awarded to each of the named executive officers is as follows: Messrs. Rohr (10,000 shares); Guyaux (8,000 shares); Shack (6,500 shares); and Whitford (7,000 shares). One-half of the shares were issued to the named executive officer free of any restriction, net of shares withheld to satisfy income tax withholding obligations; the other one-half of the shares are restricted and cannot be sold or transferred during the restricted period. If the named executive officer's employment with PNC terminates prior to the end of the restricted period, which runs through December 31, 2003, he will forfeit the restricted shares awarded, except in certain limited cases, including the officer's death, total disability, or certain qualifying terminations following or in anticipation of a change in control. During the restricted period, the officer will receive dividends on the restricted shares, as declared by the Board on Common Stock, and will be able to vote the shares. For more information about these shares, please see the Personnel and Compensation Committee Report on Executive Compensation at page 17.

(f) The amount shown for 2002 includes the dollar value of matching contributions made pursuant to the Corporation's Incentive Savings Plan, a qualified defined contribution plan, for Messrs. Rohr ($11,000); Guyaux ($11,000); Shack ($11,000); and Whitford ($3,462). The amount also includes the employer matching contribution to the Corporation's Supplemental Incentive Savings Plan, a nonqualified excess defined contribution plan, for Messrs. Rohr ($85,000); Guyaux ($29,532); Shack ($23,793); and Whitford ($29,250). The amount also includes the 2002 net premiums paid by the Corporation in connection with its Key Executive Equity Plan, a split-dollar insurance arrangement, on behalf of Messrs. Rohr ($195,959); Guyaux ($12,732); Demchak ($33,613); Shack ($8,358); and Whitford ($12,364). The net premiums disclosed in the preceding sentence represent the full dollar amounts paid by the Corporation for both the term and non-term portions of the Key Executive Equity Plan. The amount shown for Mr. Demchak also includes the signing bonus he was paid upon joining the Corporation ($200,000).

OPTION GRANTS IN 2002

This table provides information on stock options granted to the named executive officers in 2002. Only nonstatutory stock options were granted in 2002 under the Corporation's 1997 Long-Term Incentive Award Plan, as amended.

The table provides information about two categories of options granted during 2002: (i) options granted to each of the named executive officers at the discretion of the Personnel and Compensation Committee; and (ii) reload options granted to Messrs. Rohr, Guyaux, Shack, and Whitford upon their exercise, in the required manner, of options previously granted to them by the Personnel and Compensation Committee with a reload feature. Reload options included in the following table are marked with the symbol "(R)." Information about

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reload options is included in footnote (b); where appropriate, other footnotes provide additional information which is specific to the reload options shown in the table.

INDIVIDUAL OPTION GRANTS--2002

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 2002	EXERCISE OR BASE PRICE ($/SH)	EXPIRATION DATE	GRANT DATE PRESENT VALUE ($)
	(a)(b)		(c)	(d)	(e)
James E. Rohr	273,000	6.12	57.10	1/3/2012	3,309,659
	26,512(R)	0.59	60.65	1/6/2010	339,219
Joseph C. Guyaux	84,000	1.88	57.10	1/3/2012	1,018,356
	17,718(R)	0.40	60.35	1/6/2010	221,353
William S. Demchak	100,000	2.24	46.23	9/9/2012	920,314
Timothy G. Shack	68,250	1.53	57.10	1/3/2012	827,415
	11,988(R)	0.27	60.65	1/6/2010	153,386
Thomas K. Whitford	68,250	1.53	57.10	1/3/2012	827,415
	8,028(R)	0.18	60.65	1/6/2010	102,718
	5,538(R)	0.12	55.93	1/6/2010	65,879

(a) Except in the case of Mr. Demchak's options, which were granted on September 9, 2002, the option grants not marked with an "(R)" have a grant date of January 3, 2002.

The reload options shown were granted on the exercise date(s) of the named executive officer's original options. The grant dates for the reload options are as follows: (i) Mr. Rohr's reload options were granted on January 7, 2002; (ii) Mr. Guyaux's reload options were granted on January 11, 2002; (iii) Mr. Shack's reload options were granted on January 7, 2002; and (iv) Mr. Whitford's 8,028 reload options were granted on January 7, 2002 and his 5,538 reload options were granted on May 20, 2002.

Options granted by the Personnel and Compensation Committee normally become exercisable in three equal annual installments, beginning one year after the grant date, as long as the holder remains an employee. All reload options normally become exercisable one year after their grant date.

(b) Nonstatutory stock options with a "reload" feature were first granted to a select group of senior officers by the Personnel and Compensation Committee on February 19, 1997. All options granted to the named executive officers and selected other senior officers by the Committee during 2002 also have a reload feature. If options with a reload feature are exercised while the holder is still an employee using Common Stock which has been held for at least six months, the options exercised are replaced or "reloaded" with a new, at-the-market option for each share of Common Stock used to satisfy the exercise price and meet any associated tax withholding obligation. Options can be reloaded only once; the reload options shown in the table cannot be replaced when they are exercised. The reload option normally will become exercisable in one year and will have the same remaining term as the option that was exercised.

(c) The exercise price shown equals the average of the high and low sale prices of a share of the Corporation's Common Stock on the New York Stock Exchange on the date of the grant.

(d) The date shown in this column is the applicable ten-year expiration date, but an option may expire prior to that date under certain circumstances specified in the governing nonstatutory stock option agreement, such as termination of employment for reasons other than death or retirement.

The expiration date shown for reload options coincides with the expiration date of the option exercised, regardless of the reload option's grant date. For example, a reload option received upon the exercise of an option granted on February 17, 1999 would have the same expiration date of February 17, 2009 applicable to the original option, regardless of the date on which the reload option was granted.

(e) The dollar values listed in this column are based upon the Black-Scholes option pricing model.

The options granted in 2002 to the named executive officers at the discretion of the Personnel and Compensation Committee [i.e., the options shown in table that are not marked by the symbol "(R)"] and to certain other executive officers include a reload feature. Those options were valued without regard to the reload feature. The grant of a reload option is treated for purposes of this table as the automatic grant of a new option, the value of which is determined on its own terms as of its grant date. Additional information about reload options is contained in footnote (b).

The chart below shows, by option grant date, the assumptions used in accordance with the Black-Scholes option pricing model to determine the grant date present value per option. The dollar values shown in the Individual Option Grants table in the column captioned "Grant Date Present Value ($)" were calculated by carrying out the dollar value of each option to four decimal places and rounding the result to the nearest dollar. The Corporation in no way intends to provide any predictions or assurances with respect to option or Common Stock values, as some of the underlying assumptions are highly subjective and in any event the options are not transferable except upon the death of the optionee. The grant dates for specific options listed in the Individual Option Grants table are disclosed in footnote (a).

GRANT DATE	MARKET PRICE	EXERCISE PRICE	VOLATILITY	ANNUALIZED RISK FREE RATE OF RETURN	ESTIMATED USEFUL LIFE	DIVIDEND YIELD	ESTIMATED VALUE OF OPTION

1/03/02	$57.10	$57.10	0.2646	4.57%	5 Years	3.52%	$12.12
1/07/02	60.65	60.65	0.2646	4.49	5 Years	3.52	12.79
1/11/02	60.35	60.35	0.2646	4.24	5 Years	3.52	12.49
5/20/02	55.93	55.93	0.2657	4.55	5 Years	3.52	11.90
9/09/02	46.23	46.23	0.2769	3.17	5 Years	3.52	9.20

AGGREGATED OPTION EXERCISES IN 2002 AND 2002 YEAR-END OPTION VALUES

This table provides information concerning exercises of nonstatutory stock options during 2002 by certain of the named executive officers. The table also shows the number and value of unexercised options, including any reload options held by the named executive officer, at the end of 2002.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 2002 YEAR END (#)		VALUE OF UN IN-THE-MONE AT 2002 YEAR
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE
					(B)
James E. Rohr	33,333	615,411	481,949	577,013	$1,559,220
Joseph C. Guyaux	22,167	402,608	140,096	193,718	0
William S. Demchak	0	0	0	100,000	0
Timothy G. Shack	15,000	276,938	116,690	149,238	0
Thomas K. Whitford	16,667	276,355	102,094	158,483	0

(a) An option is in-the-money if the fair market value of the underlying security exceeds the exercise price of the option.

(b) The dollar values shown were calculated by determining the difference between: (i) the average of the high and low sale prices of the Corporation's Common Stock on the New York Stock Exchange on December 31, 2002 ($41.655); and (ii) the exercise prices of the various options held by the named executive officer as of December 31, 2002.

PENSION BENEFITS

The Corporation maintains a non-contributory pension plan ("Pension Plan" or "Plan") for qualifying employees. The Plan is a defined benefit pension plan under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and is qualified under Section 401(a) of the Code. The Corporation and

certain of its subsidiaries contribute an actuarially determined amount necessary to fund the total benefits payable to participants employed by them. The amount of the Corporation's annual contribution with respect to a specific participant cannot be readily calculated by the actuaries for the Pension Plan.

Benefits under the Plan are determined as follows: Effective January 1, 1999, a recordkeeping "account" was established for each participant. The initial account balance was determined as the present value of each participant's accrued benefit as of December 31, 1998, using the Plan provisions in effect on December 31, 1998. For each calendar quarter ending after January 1, 1999, eligible participants receive "Earnings Credits," expressed as a percentage of Covered Earnings, in accordance with a schedule based on the participant's age plus years of credited service. In addition, employees who were at least age 40 and had at least 10 years of credited service as of January 1, 1999 receive additional quarterly "Transitional Credits" for up to 10 years. Participants also receive quarterly "Interest Credits" at the prevailing 30-year U.S. Treasury Bond rate.

"Covered Earnings" is defined as an employee's regular earnings plus eligible variable compensation, such as paid bonuses; deferred bonus payments are applied to the Corporation's ERISA Excess Pension Plan, discussed below. Eligible variable compensation for employees is limited to the greater of $25,000 or 50% of the employee's total eligible variable compensation for the calendar year. Eligible variable compensation is generally limited to $250,000 for purposes of the 50% calculation, except in the case of a select group of senior officers.

The Corporation also maintains two supplemental non-qualified pension plans. The ERISA Excess Pension Plan provides retirement benefits equal to the difference, if any, between the maximum benefit allowed under the Code and the amount that would be provided by the Pension Plan if no limits were applied. The ERISA Excess Pension Plan also recognizes deferred bonuses that are not included in the Pension Plan as Covered Earnings.

The Corporation also maintains a separate supplemental retirement benefit plan applicable to certain officers of the Corporation and its subsidiaries. Officers who were age 50 and had five years of vesting service as of January 1, 1999 receive benefits based on the formula in effect prior to January 1, 1999. All other officers participating in this plan will receive a benefit based upon the cash balance pension formula described above, applied to eligible bonuses.

The estimated total annual benefits (including those payable by both supplemental non-qualified pension plans) payable upon retirement at the normal retirement age of 65 for each of the named executive officers are as follows: Messrs. Rohr ($1,914,623); Guyaux ($698,359); Demchak ($536,562); Shack ($621,391); and Whitford ($595,166). Except as explained below with respect to Mr. Demchak, the benefits have been projected assuming that: (a) each named executive officer's salary remains constant until retirement; (b) future annual bonuses are assumed to be the same as those paid in 2002; and (c) the 30-year U.S. Treasury Bond rate until retirement is 7.0%. In the case of Mr. Demchak, he was assumed to become a participant in the Corporation's pension plans on April 1, 2003. Further, his projected benefits were calculated using an estimated 2003 annual bonus (to be paid in 2004) of $689,000; Mr. Demchak's future annual bonuses were also assumed to be that amount. The amounts shown are based on the payment method which would result in the highest annual benefit, if selected by the named executive officer.

COMMON STOCK PERFORMANCE GRAPH

The graph set forth below shows the cumulative total shareholder return (i.e., price change plus reinvestment of dividends) on the Corporation's Common Stock during the five-year period ended December 31, 2002, as compared with: (i) a selected peer group of the Corporation's competitors ("Peer Group"+); (ii) an overall stock market index, the S&P 500 Index; and (iii) a published industry index, the S&P 500 Banks Index ("S&P Banks"). The yearly points marked on the horizontal axis of the graph correspond to December 31 of that year. The stock performance graph assumes that $100 was invested on January 1, 1998, for the five-year period and that any dividends were reinvested. The table below the graph shows the resultant compound annual growth rate ("CGR") for the performance period.

INDEXED RETURNS--YEARS ENDING

	PNC	PEER GROUP(+)	S&P 500
Dec97	100	100	1
Dec98	97.67	111.12	128.
Dec99	82.96	92.51	155.
Dec00	141.13	103.79	141.
Dec01	111.84	110.70	124.
Dec02	86.78	89.91	97.
5 year CGR	(2.8)%	(2.1)%	(0

+ The Peer Group represented comprises the following companies: Bank of America Corporation; The Bank of New York Company, Inc.; Bank One Corporation; Fifth Third Bancorp; FleetBoston Financial Corporation; KeyCorp; National City Corporation; The PNC Financial Services Group, Inc.; SunTrust Banks, Inc.; U.S. Bancorp; Wachovia Corporation; and Wells Fargo & Company. Each yearly point for the Peer Group is determined by calculating the cumulative total shareholder return for each company in the Peer Group from January 1, 1998 to December 31 of that year and then using the median of these returns as the yearly plot point. The Peer Group shown is the Peer Group approved by the Board's Personnel and Compensation Committee in 2002. The Corporation's 2003 Peer Group does not include Bank of America Corporation.

In accordance with the rules of the SEC, this section, captioned "Common Stock Performance Graph," shall not be incorporated by reference into any of the Corporation's future filings made under the Exchange Act or the Securities Act and shall not be deemed to be soliciting material or to be filed under the Exchange Act or the Securities Act.

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VOTING PROCEDURES

Pennsylvania law and the Corporation's By-Laws require the presence of a quorum to transact business at the annual meeting. A quorum is constituted by the presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast on the particular matters to be voted on. Votes withheld from director nominees and abstentions will be counted in determining whether a quorum has been reached.

Under Pennsylvania law, the act of "voting" does not include either recording the fact of abstention or failing to vote for a candidate or for approval or disapproval of a proposal, whether or not the person entitled to vote characterizes the conduct as voting. In other words, only those who indicate an affirmative or negative decision on a matter are treated as voting, so that ordinarily abstention or a mere absence or failure to vote is not equivalent to a negative decision. A broker-dealer "non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Shareholders may vote by mailing their completed, dated, and signed proxy card in the envelope provided, which requires no postage if mailed in the United

States. Alternatively, shareholders of record may use the telephone or Internet voting options explained on their proxy card. Shareholders of record wishing to use the Internet voting option should go to the following web site: www.computershare.com/us/proxy, enter the information requested on the computer screen, and follow the instructions. Shareholders should have their proxy card readily available, so that they can refer to the holder account number and proxy access number printed on the proxy card. The Pennsylvania Business Corporation Law of 1988, 15 Pa.C.S.A. section 1759(b), provides that shareholders voting by means of the telephone or the Internet, as instructed, will be treated as transmitting a properly authenticated proxy for voting purposes. Pennsylvania law permits the use of telephone or Internet voting both when a shareholder of record is voting and when a beneficial owner is communicating its vote to a shareholder of record, such as a securities depositary or brokerage firm.

With respect to Item 1, the 16 nominees for election as directors who receive the greatest number of votes cast at the annual meeting, assuming that a quorum is present, will be elected as directors at the conclusion of the vote tabulation. A withheld vote on any nominee will not affect the voting results.

The rules of the New York Stock Exchange state that the total vote cast on each item which is required by those rules to be voted on by shareholders represent over 50 percent in interest of the Common Stock and the Voting Preferred Stock, voting together as a single class. As a result, shares not voted, abstentions and broker non-votes will have a negative effect on the satisfaction of that requirement.

Under the rules of the New York Stock Exchange, "routine" items are those upon which broker-dealers holding shares in street name for their customers may vote, in their discretion, on behalf of any customers who do not furnish voting instructions within ten days of the annual meeting. With respect to non-routine items that come before the annual meeting for a vote, such broker-dealers would not be able to vote without first receiving voting instructions from their customers. These broker "non-votes" would not be considered in the calculation of the majority of the votes cast and therefore would have no effect on the vote with respect to a non-routine item, except as otherwise explained in the preceding paragraph.

The Corporation has adopted a policy that all proxies, ballots, voting instructions from employee benefit plan participants and voting tabulations that identify the particular vote of a shareholder or benefit plan participant be kept permanently confidential and not be disclosed to the Corporation, its directors, officers or employees except: (i) as necessary to meet legal requirements or to pursue or defend legal actions; (ii) to allow the Judge of Election to certify the results of the vote; (iii) when expressly requested by a shareholder or benefit plan participant; or (iv) in the event of a contested proxy solicitation. The Corporation has confirmed with its independent vote tabulator and Judge of Election that its procedures will be consistent with the foregoing policy.

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INDEPENDENT AUDITORS

At its meeting on February 15, 2001, the Board of Directors approved the recommendation of the Audit Committee for the appointment of Ernst & Young LLP to audit the consolidated financial statements of the Corporation for 2001.

In addition to having served as the independent auditor of the Corporation's 2001 consolidated financial statements, Ernst & Young LLP executes the Corporation's internal audit program under the direction of PNC's corporate audit staff. Ernst & Young LLP also provides various tax and nonattest and advisory services to the Corporation.

Under rule amendments regarding auditor independence adopted by the SEC, beginning August 3, 2002 independent accountants are no longer permitted to provide audit clients with certain non-audit services. Accordingly, PNC decided to have separate internal and independent audit providers commencing with fiscal 2002. Ernst & Young LLP acted as independent auditor with respect to the Corporation's 2001 financial statements and continues to provide various internal audit, tax, and nonattest and advisory services to the Corporation. PNC engaged Deloitte & Touche LLP as the Corporation's principal accountants to audit the Corporation's 2002 financial statements. These actions were recommended by the Audit Committee and approved by the Corporation's Board of Directors on December 18, 2001.

Ernst & Young LLP's reports on the Corporation's financial statements for the fiscal years 2000 and 2001 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal years 2000 and 2001 and any subsequent interim period preceding the date of this proxy statement, (i) there were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young LLP, would have caused Ernst & Young LLP to make a reference to the subject matter of the disagreement in connection with its reports in the financial statements for such years, and (ii) there were no reportable events as defined in Item 304 of Regulation S-K. The Corporation has provided Ernst & Young LLP with a copy of the preceding disclosure prior to filing this proxy statement with the SEC. Ernst & Young LLP has provided a letter to the Corporation stating that it agrees with the statements made in the disclosure.

Details about the nature of the services provided by, and the fees that the Corporation paid to, Deloitte & Touche LLP for such services provided during 2002 are set forth below. At its meeting on February 17, 2003, the Audit Committee appointed Deloitte & Touche LLP to audit the consolidated financial statements of the Corporation for 2003.

Representatives of Deloitte & Touche LLP and Ernst & Young LLP are expected to be present at the annual meeting with the opportunity to make a statement if they desire to do so and to be available to respond to appropriate questions.

AUDIT FEES

The aggregate fees for professional services rendered by Deloitte & Touche LLP in the 2002 fiscal year were $6,118,274 relating to services performed to comply with Generally Accepted Auditing Standards. These services included fees related to their audit of PNC's consolidated financial statements, reviews of the consolidated financial statements included in PNC's Quarterly Reports on Form 10-Q and issuance of service auditor reports.

FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

There were no professional services rendered by Deloitte & Touche LLP in the 2002 fiscal year relating to financial information systems design and implementation.

ALL OTHER FEES

The Audit Committee has considered the compatibility of non-audit services with the auditor's independence. The aggregate fees for all other services

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rendered by Deloitte & Touche LLP in the 2002 fiscal year were $1,827,242 and
can be subcategorized as follows:

          Audit Related Fees.  The aggregate fees for professional services
     rendered by Deloitte & Touche LLP in the 2002 fiscal year was $1,676,293
  lling prices by increasing our sales volumes or introducing new products with higher margins, o
gross margins will suffer. To support our gross margins, we must develop and introduce new produc
gross margins to decline.
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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.

If we fail to penetrate new markets, 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 applications for digital television, cable modems and gateways and cable set-top boxes, automotive TV display, and to Chinese manufacturers of set top boxes for sale in various markets worldwide. Our future revenue growth, if any, will depend in part on our ability to expand beyond these markets with our RF receivers and RF receiver SoCs. Each of these markets presents distinct and substantial risks. If any of these markets does 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.

We expect cable modems and set top boxes to represent our largest North American target market. The North American cable set top box market is dominated by only a few OEMs, including Motorola Inc., Cisco Systems, Inc., Arris Group, Inc. and Technicolor S.A. These OEMs are large, multinational corporations with substantial negotiating power relative to us. 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 cable television companies such as Comcast Corporation and Time Warner Cable Inc. 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.

Finally, the markets for IPTV and PCTV are nascent and relatively small. We have sold limited quantities of our products into these markets and cannot predict how, or to what extent, demand for our products in these markets will develop.

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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.

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.

For the year ended December 31, 2011, sales of our RF receiver products used in digital terrestrial television applications, or DTT, including digital televisions, automotive navigation displays, PCTV, IPTV, and terrestrial set top boxes, and modems and gateways for cable represented a significant portion of our revenues. We expect a significant 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. Most countries in Western Europe are expected to convert completely to digital television by the end of 2012, with the transition in Eastern Europe expected to continue through 2015. 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 transition to digital TV standards does not take place or is substantially delayed in Europe or other international markets, 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.

We are subject to U.S. export control and economic sanctions laws relating to the sale of our products. Although we did not intend to do so, we may have violated certain of these laws in the past, and we cannot currently assess with certainty the nature and extent of fines or other penalties, if any, that U.S. governmental agencies may impose against us, our management, or other employees for these potential violations. Any fines, if materially different from our current estimates, and any other penalties that regulatory authorities may seek to impose could have a material adverse effect on our business, operating results, and financial condition.

As noted in our Current Report on Form 8-K filed on February 7, 2012, in the first quarter of 2012, we determined that we may have taken actions that could constitute facilitation (within the meaning of applicable sanctions and export control laws) of shipments of foreign produced products to Iran or taken other actions that may be in violation of U.S. export control and economic sanctions laws. Specifically, certain of our tuner products, which are foreign produced and not subject to U.S. export controls, were included in set-top converter boxes produced by set-top box manufacturers in Asia to permit conversion of digital television signals to analog signals in international markets, including Iran, using the DVB-T, or Digital Video Broadcasting Terrestrial, broadcast standard. The DVB-T standard is used in most of Europe, Asia (excluding China), Australia, and Africa as well as in parts of the Middle East, including Iran. While the underlying shipment of our tuners into Iran by foreign manufacturers of these set-top boxes may have been lawful, we may have violated applicable sanctions and export control laws without the proper U.S. Government authorization.

We initially identified these potential violations internally, rather than as a result of a third-party audit or government investigation, and upon learning of these potential violations, our audit committee promptly retained outside counsel to conduct a review of our sanctions and export control compliance. On February 7, 2012, we made voluntary initial filings with the Office of Foreign Assets Control of the United States Department of the Treasury, or OFAC, and with the Bureau of Industry and Security of the United States Department of Commerce, or BIS, notifying these regulatory agencies that we were conducting a review of export control matters and that we would submit any supplemental voluntary self disclosures once our internal review was complete. The initial stage of the review was concluded in March 2012. Among other matters, our audit committee determined that our management team lacked sufficient familiarity with and understanding of export control and sanctions laws and

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their applicability to our products and services. Our audit committee concluded that our management team did not intentionally or knowingly violate applicable sanctions and export control laws.

Outside counsel is now preparing the final voluntary disclosures to be submitted to OFAC and BIS. OFAC and BIS may conclude that our actions resulted in violations that warrant the imposition of penalties that could include fines, termination of our ability to export our products, and/or referral for criminal prosecution. Penalties and potential criminal enforcement actions could be imposed against us and/or our management and certain of our employees. We cannot predict when OFAC or BIS will complete their reviews of our submissions, and resolution of these matters with the government could take substantial time and require substantial expenditure and management resources, either of which could be harmful to our business and operating results.

Any fines that OFAC or BIS may impose on us could be material to our operating results in the period in which they are imposed and could have a material adverse effect on our financial condition. The maximum civil monetary penalty for each violation is up to $250,000 or twice the value of the transaction, whichever is greater. Based upon facts known to us to date, we recorded an expense of $0.8 million, reflected in selling, general, and administrative expense, in the fourth quarter of 2011 for this export compliance matter, representing management s estimated exposure for fines in accordance with applicable accounting literature. Should additional facts be discovered in the future and/or should actual fines or other penalties differ from our estimates, our business, operating results, and financial condition could be materially and negatively affected. In that regard, we cannot guarantee that either OFAC or BIS will agree with our assessments of the quantity and nature of the potential violations. As a result, OFAC or BIS could seek to impose higher fines and penalties than those we have estimated to date. As a result of increased awareness relative to U.S. export control and economic sanction laws relating to the sale of our products, we are in the process of implementing an export control compliance management system and undertaking remedial measures to reduce the risk of similar events occurring in the future.

Continued adverse U.S. and international 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.

Since September 2008, the global credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from U.S. and foreign governments. Recently, the credit crisis has reemerged in Europe with threats of credit default by certain member countries of the European Union, and by substantial budgetary and fiscal constraints, including proposals for severe budget reductions in larger European Union countries such as Germany and the United Kingdom. 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. In addition, our recent revenue growth has been attributable in large part to purchases of digital-to-analog set top converter boxes in various geographies including Europe. Partially in response to economic and political developments, Greece recently extended the date for its deadline for switching to exclusive digital television broadcasts. Similar extensions in other European countries could adversely affect our revenue and growth. These events, together with the current adverse economic conditions facing the broader economy and, in particular, the semiconductor and communications industries, have adversely affected, and may continue to adversely affect, our business, particularly to the extent that consumers decrease their discretionary spending for devices deploying our products.

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

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wafer fabrication and assembly and test capacity, including sole sourcing for many components or products. Currently, all of our products are manufactured by UMC, Silterra Malaysia Sdn. Bhd, and SMIC, at foundries in Taiwan, Singapore, Malaysia, and China. 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 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 affect 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 and SMIC. 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 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.

Due to our limited operating history, we may have difficulty accurately predicting our future revenue and appropriately budgeting our expenses.

We have only a limited operating history from which to predict future revenue. This limited operating experience, combined with the rapidly evolving nature of the markets in which we sell our products, 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.

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

We have experienced significant growth in a short period of time. Our net revenue increased from approximately $51.4 million in 2009 to approximately $68.7 million in 2010 and approximately $71.9 million in 2011. We may not achieve similar growth rates in future periods. 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.

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.

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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, changes in our customer s manufacturing process or our 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 majority of our products to customers through our distributors, who maintain their own inventories of our products. Sales to distributors accounted for 71% of our net revenue in the year ended December 31, 2011. 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 to 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

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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.

Winning business is subject to lengthy competitive selection processes that require us to incur significant expenditures. Even if we begin a product design, a customer may decide to cancel or change its 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 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 12 to 36 months for the automotive TV display market. 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;

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- 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;
- loss of key personnel or the shortage of available skilled workers; and
- the effects of competitive pricing pressures, including decreases in average selling prices of our products.

The foregoing 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.

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, in particular, the services of Kishore Seendripu, Ph.D., our Chairman, President and Chief Executive Officer, Curtis Ling, Ph.D., our Chief Technical Officer and a Director, and Madhukar Reddy, Ph.D., our Vice President, IC and RF Systems Engineering. 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.

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.

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 RF receivers and RF receiver SoCs may contain defects and bugs when they are first introduced or as new versions are released. Due to our limited operating history, defects and bugs that may be contained in our products may not yet have manifested. We have in the past experienced, and may in the future experience, defects and bugs. If any of our products contains defects or bugs, or has 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, we may be required to incur additional development costs and product recall, repair or replacement costs, and our operating costs could be adversely 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.

We may face claims of intellectual property infringement, which 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. From time to time, third parties may assert against us and our customers and distributors their patent and other intellectual property rights to technologies that are important to our business.

Claims that our products, processes or technology infringe third-party intellectual property rights, regardless of their merit or resolution, could be 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. We do not know whether we will prevail in these proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If any pending or 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;
- 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, not only would this be time-consuming, but we would 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 effect 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.

In connection with settling 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.

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 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 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. 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. Recently, U.S. President Barack Obama s administration proposed significant changes to the U.S. international tax laws that could limit U.S. deductions for expenses related to un-repatriated foreign-source income, and modify the U.S. foreign tax credit and check-the-box rules. We cannot determine whether these proposals will be enacted into law or what, if any, changes may be made to such proposals prior to their being enacted into law. If the U.S. 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.

Our future effective tax rate could be unfavorably affected by unanticipated changes in the valuation of our deferred tax assets and liabilities. 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 increase the valuation allowance against the deferred tax asset. Realization of our deferred tax assets is dependent primarily upon future U.S. taxable income. During the year ended December 31, 2011, we established a full valuation allowance on our net federal deferred tax assets.

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. Sales to end customers in Asia accounted for 90% our net revenue in the year ended December 31, 2011. Sales to end customers in Japan accounted for 39% of our net revenue in the year ended December 31, 2011. In addition, approximately 24% 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;

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- 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, substantially all of our products undergo packaging and final test in Taiwan. Any conflict or uncertainty in this country, 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. The loss of Polar Star as a distributor did not materially delay shipment of our products because Polar Star was a non-exclusive distributor and we had in place alternative distribution arrangements. However, we cannot provide assurances that similar disruptions of distribution arrangements in the future will not result in delayed shipments until we are able to identify alternative distribution channels, which could include a requirement to increase our direct sales efforts. Loss of a key distributor 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 and Malaysia, 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. In particular, any catastrophic loss at the Carlsbad and Irvine, California, Taiwan, Singapore or Shanghai facilities would materially and adversely affect our business.

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Our net revenues could be adversely affected by the recent earthquake, tsunami, and nuclear crisis in Japan and flooding in Thailand.

In March 2011, a major earthquake struck northeastern Japan, triggering a tsunami that together with the earthquake resulted in unprecedented damage to infrastructure and substantial loss of life. From a business and financial perspective, these events have led to substantial uncertainty about the direction of the Japanese economy, including the automotive and consumer electronics industries from which we realize substantial revenues.

For fiscal 2010, revenue directly attributable to Japan, which includes revenues attributable to the sale of integrated circuits into the Japanese automotive industry and sales of integrated circuits for electronic devices destined for Japanese consumer and mobile markets, accounted for approximately 57% of our net revenue. For fiscal 2011, Japanese-derived revenue declined to 39% of our net revenue as sales of our cable products increased relative to other products. We currently expect this trend to continue in fiscal 2012. Nevertheless, Japan will continue to account for a substantial portion of our net revenues, and our ability to achieve our financial forecasts will depend in large part on trends in Japanese automotive and consumer markets. In particular, our net revenue in 2012 could be adversely affected by continued manufacturing shut-downs in Japan, whether due to power shortages, disruptions in manufacturing supply chains, or other reasons. In addition, net revenues attributable to Japanese consumer and mobile markets will depend on the reaction of Japanese consumers to these events, including trends in consumer confidence and spending and the general pace and trend of recovery from the earthquake, tsunami, and nuclear crisis. We have limited ability to predict the impact of these events on our net revenues, particularly when depleted inventories could begin to have a material effect on the availability of components if automotive and consumer electronic supply chains have not recovered by that time.

In October 2011, many areas of Thailand sustained massive damage from flooding which may disrupt the global supply chain for hard disk drives and components manufactured in Thailand that may be included in the end user products of our customers. Due to cross dependencies, supply chain disruptions stemming from the flooding in Thailand could negatively impact the demand for our products, including, for example, if our customers are unable to obtain sufficient supply of other components required for their end product. We have limited ability to predict the impact of these events on our net revenues, particularly when depleted inventories could begin to have a material effect on the availability of hard disk drives and components if supply chains have not recovered by that time.

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 and import/export regulations. 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.

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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.

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 Securities Exchange Commission, or 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.

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. The industry is experiencing a significant downturn during the current global recession. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. The current downturn and any future downturns could have a material adverse effect on our business and operating results. 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 RF receivers and RF receiver SoCs. None of our third-party foundry or assembly contractors has provided assurances that adequate capacity will be available to us in the future.

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:

- 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 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.

The concentration of our capital stock ownership with our founders, executive officers, employees and our directors and their affiliates will limit your ability to influence corporate matters and their interests may differ from other stockholders.

As of December 31, 2011, our founders, executive officers, directors and their affiliates beneficially owned, in the aggregate, approximately 41% of our outstanding capital, representing approximately 84% 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. In particular, our founders and our Chairman, President and Chief Executive Officer, Dr. Seendripu, together control approximately 22% of our outstanding capital stock, representing approximately 45% 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. Additionally, approximately 10% of our outstanding common stock is collectively owned by investment funds affiliated with U.S. Venture Partners. A representative of U.S. Venture Partners is a director of MaxLinear. Together with these funds,

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Dr. Seendripu and the other founders therefore have significant influence over the management and affairs of the Company 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 our Company or its assets, for the foreseeable future.

Our management team may invest or spend the proceeds from our initial public offering in ways with which you may not agree or in ways which may not yield a return.

The net proceeds from our initial public offering may be used for general corporate purposes, including working capital. We may also use a portion of the net proceeds to acquire complementary businesses, products, services or technologies. However, we do not have any agreements or commitments for any specific acquisitions at this time. Our management will have considerable discretion in the application of the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not increase our operating results or market value. Until the net proceeds are used, they 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, the President of the Company 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;

- 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;

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;

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.

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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 December 31, 2011, we had 19.1 million shares of Class A common stock and 14.1 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.

The holders of 3.3 million shares of Class B common stock, or 10% of our total outstanding Class A and Class B common stock, are entitled to rights with respect to registration of these shares under the Securities Act pursuant to a registration rights agreement. Shares of our Class B common stock automatically will convert into shares of our Class A common stock upon any sale or transfer, whether or not for value, except for certain transfers described in our amended and restated certificate of incorporation. If these holders of our Class B common stock, by exercising their registration rights, sell a large number of shares, they could adversely affect the market price for our Class A common stock. If we file a registration statement for the purposes of selling additional shares to raise capital and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired. We filed registration statements on Form S-8 under the Securities Act to register 11.6 million shares of our Class A common stock for issuance under our 2010 Equity Incentive Plan and 2010 Employee Stock Purchase Plan. 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 holders.

The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the listing requirements of the NYSE and other applicable securities rules and regulations. None of our senior executives has managed a public company prior to our becoming a public company in March 2010. Compliance with these rules and regulations have increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased the demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management s attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations. Although we have already hired additional staff to comply with these requirements, we may need to hire more employees in the future, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management s time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

We also expect that being a newly public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters occupy approximately 29,000 square feet in Carlsbad, California under a lease that expires in August 2014. All of our business and engineering functions are represented at our corporate headquarters, including three laboratories for research and development and manufacturing operations. In addition to our principal office space in Carlsbad, we have leased facilities for use as design centers in Irvine, California, Shanghai, China and Bangalore, India. We also have engineering support offices in Shenzhen, China, Tokyo, Japan and Hsinchu, Taiwan. We believe that our current facilities are adequate to meet our ongoing needs and that additional facilities are available for lease to meet our future needs.

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ITEM 3. LEGAL PROCEEDINGS

We are not currently a party to any material litigation, and we are not aware of any pending or threatened litigation against us that we believe would adversely affect our business, operating results, financial condition or cash flows. The semiconductor industry is characterized by frequent claims and litigation, including claims regarding patent and other intellectual property rights as well as improper hiring practices. As a result, in the future, we may be involved in various legal proceedings from time to time.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

In March 2010, we completed the initial public offering of our Class A common stock. Our Class A common stock is traded on the New York Stock Exchange, or NYSE, under the symbol MXL. The following table sets forth, for the periods indicated, the high and low sale prices for our Class A common stock as reported by the NYSE:

	Year Ended December 31, 2011	
	High	Low
First Quarter (January 1, 2011 to March 31, 2011)	$ 12.83	$ 7.32
Second Quarter (April 1, 2011 to June 30, 2011)	$ 9.68	$ 7.70
Third Quarter (July 1, 2011 to September 30, 2011)	$ 9.26	$ 4.86
Fourth Quarter (October 1, 2011 to December 31, 2011)	$ 6.41	$ 4.13

	Year Ended December 31, 2010	
	High	Low
First Quarter (March 24, 2010 to March 31, 2010)	$ 19.50	$ 17.56
Second Quarter (April 1, 2010 to June 30, 2010)	$ 18.36	$ 13.01
Third Quarter (July 1, 2010 to September 30, 2010)	$ 14.71	$ 9.65
Fourth Quarter (October 1, 2010 to December 31, 2010)	$ 11.50	$ 9.30

On December 31, 2011, the last reported sales price of our common stock was $4.75 and, according to our transfer agent, as of February 29, 2012, there were 13 record holders of our Class A common stock and 77 record holders of our Class B common stock.

Our Class B common stock is not publicly traded. Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock and in most instances automatically converts upon sale or other transfer.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our common stock in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our Board of Directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our Board of Directors may deem relevant.

Stock Performance Graph

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed filed with the SEC or Soliciting Material under the Exchange Act, or subject to Regulation 14A or 14C, or to liabilities of Section 18 of the Exchange Act except to the extent we specifically request that such information be treated as soliciting material or to the extent we specifically incorporate this information by reference.

The graph below compares the cumulative total stockholder return on our Class A common stock with the cumulative total return on The NYSE Composite Index and The Philadelphia Semiconductor Index. The period shown commences on March 23, 2010 and ends on December 31, 2011, the end of our last fiscal year. The graph

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assumes an investment of $100 on March 23, 2010, and the reinvestment of any dividends. In addition, the graph assumes the value of our common stock on March 23, 2010 was the initial public offering price of $14.00 per share.

The comparisons in the graph below are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our common stock.

Recent Sales of Unregistered Securities

In the fiscal year ended December 31, 2011, we issued an aggregate of 1 million shares of our Class B common stock to certain employees upon the exercise of options awarded under our 2004 Stock Plan. We received aggregate proceeds of approximately $1.5 million in the fiscal year ended December 31, 2011 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 December 31, 2011, options to purchase an aggregate of 2.7 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.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering.

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.

Use of Proceeds

Our initial public offering of Class A common stock was effected through a Registration Statement on Form S-1 (File No. 333- 162947) that was declared effective by the Securities and Exchange Commission on

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March 23, 2010. From the effective date of the registration statement through December 31, 2011, we have used the net proceeds of the offering for working capital purposes, including expenditures for inventory, personnel costs, equipment and acquired intellectual property, and other operating expenses.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

We have derived the selected consolidated statement of operations data for the fiscal years ended December 31, 2011, 2010 and 2009 and selected consolidated balance sheet data as of December 31, 2011 and 2010 from our audited consolidated financial statements and related notes included elsewhere in this report. We have derived the statement of operations data for the fiscal years ended December 31, 2008 and 2007 and the balance sheet data as of December 31, 2009, 2008 and 2007 from our audited consolidated financial statements not included in this report. Our historical results are not necessarily indicative of the results to be expected for any future period. The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this report.

	Years Ended December 31,				
	2011	**2010**	**2009**	**2008**	**2007**
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Net revenue	$ 71,937	$ 68,701	$ 51,350	$ 31,331	$ 9,696
Cost of net revenue	26,616	21,560	17,047	12,675	4,896
Gross profit	45,321	47,141	34,303	18,656	4,800
Operating expenses:					
Research and development	40,156	27,725	19,790	14,310	9,924
Selling, general and administrative	20,178	15,912	9,921	6,356	4,296
Total operating expenses	60,334	43,637	29,711	20,666	14,220
Income (loss) from operations	(15,013)	3,504	4,592	(2,010)	(9,420)
Interest income	292	326	51	179	654
Interest expense	(69)	(29)	(52)	(74)	(78)
Other income (expense), net	(241)	(58)	(32)	(9)	135
Income (loss) before income taxes	(15,031)	3,743	4,559	(1,914)	(8,709)
Provision (benefit) for income taxes	6,993	(6,371)	230		
Net income (loss)	(22,024)	10,114	4,329	(1,914)	(8,709)
Net income allocable to preferred stockholders		(1,215)[(1)]	(3,691)[(1)]		
Net income (loss) attributable to common stockholders	$ (22,024)	$ 8,899	$ 638	$ (1,914)	$ (8,709)
Net income (loss) per share attributable to common stockholders:					
Basic	$ (0.68)	$ 0.33	$ 0.06	$ (0.19)	$ (0.93)
Diluted	$ (0.68)	$ 0.30	$ 0.06	$ (0.19)	$ (0.93)
Shares used to compute net income (loss) per share attributable to common stockholders:					
Basic	32,573	26,743	10,129	9,861	9,364
Diluted	32,573	29,478	11,512	9,861	9,364

(1) Please see Note 2 to our consolidated financial statements for an explanation of the method used to calculate net income allocable to preferred stockholders and net income (loss) attributable to common stockholders, including the method used to calculate the number of shares used in the computation of the per share amounts.

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	2011	2010	As of December 31, 2009 (in thousands)	2008	2007
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short- and long-term investments, available-for-sale	$ 85,736	$ 94,486	$ 17,921	$ 9,720	$ 8,973
Working capital	76,585	95,444	11,029	8,406	10,292
Total assets	112,376	118,918	35,773	16,723	14,603
Capital lease obligations, net of current portion	2	18	115	238	301
Convertible preferred stock[(1)]			35,351	35,351	35,351
Total stockholders equity (deficit)	93,025	104,897	(19,475)	(25,363)	(23,914)

(1) Upon certain change in control events that may be outside of our control, including our liquidation, sale or transfer of control, holders of the convertible preferred stock could cause its redemption. Accordingly, these shares were considered contingently redeemable and were classified as temporary equity on our balance sheets instead of in stockholders equity (deficit). We adjusted the carrying values of the convertible preferred stock to their liquidation values at the date of issuance.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 highly integrated, radio-frequency analog and mixed-signal semiconductor solutions for broadband communications applications. Our high performance radio-frequency, or RF, receiver products capture and process digital and analog broadband signals to be decoded for various applications. These products include both RF receivers and RF receiver systems-on-chip, or SoCs, which incorporate our highly integrated radio system architecture and the functionality necessary to demodulate broadband signals. Our current products enable the display of broadband video content in a wide range of electronic devices, including cable and terrestrial set top boxes, digital televisions, mobile handsets, personal computers, netbooks and in-vehicle entertainment devices.

Our net revenue has grown from approximately $600,000 in fiscal 2006 to $71.9 million in fiscal 2011. In 2010 and 2011, our net revenue was derived from sales of global digital RF receiver products for digital set top box applications, automotive navigation displays, mobile handsets, cable modems and gateways and digital televisions. Our ability to achieve revenue growth in the future will depend, among other factors, on our ability to further penetrate existing markets; our ability to expand our target addressable markets by developing new and innovative products; and our ability to obtain design wins with device manufacturers, in particular manufacturers of set top boxes and cable modems and gateways for the cable industry.

Substantially all of our sales have been to customers outside the United States. Sales to customers in Asia accounted for 90%, 97% and 99% of net revenue in the years ended December 31, 2011, 2010 and 2009, respectively. The majority of our sales to these and other customers are through distributors based in Asia. Although we actually sell the products to and are paid by the distributors, we refer to these end customers as our customers. Because many of our customers or their OEM manufacturers are located in Asia, we anticipate that a majority of our revenue will continue to come from sales to customers in that region. Although a large percentage of our sales are made to customers in Asia, we believe that a significant number of the systems designed by these customers and incorporating our semiconductor products are then sold to end users outside Asia. For example, we believe revenue generated from sales of our digital terrestrial set top box products during the years ended December 31, 2011 and 2010 related principally to sales to Asian set top box manufacturers delivering products into European markets. To date, all of our sales have been denominated in United States dollars.

A significant portion of our net revenue has historically been generated by a limited number of customers. Our three largest customers collectively represented 32% of net revenue for the year ended December 31, 2011. For certain customers, we sell multiple products into disparate end user applications such as modules for televisions, in-vehicle or automotive applications and mobile handsets.

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 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 digital set top box market a design-in can have a product life cycle of 18 to 24 months. In the automotive sector, the product life cycle of a design-in can range from 36 to 60 months. In the mobile television sector, the product life cycle can range from 12 to 36 months.

In March 2010, we completed the initial public offering, or IPO, of our Class A common stock in which we sold and issued 5.9 million shares of Class A common stock, including 0.8 million shares related to the exercise of the underwriters over-allotment, at an issue price of $14.00 per share. We raised a total of $82.9 million in gross proceeds in the IPO, or approximately $72.9 million in net proceeds after deducting underwriting discounts and commissions of $5.8 million and other offering costs of $4.2 million. Immediately prior to the closing of the IPO, all shares of our then-outstanding convertible preferred stock outstanding automatically converted into 14.5 million shares of our Class B common stock.

Critical Accounting Policies and Estimates

Management s discussion and analysis of our financial condition and results of operations are 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 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, 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 the following accounting policies 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.

Revenue Recognition

Revenue is generated from sales of our integrated circuits. We recognize revenue when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed or determinable and 4) collectibility is reasonably assured. Title to product transfers to customers either when it is shipped to or received by the customer, based on the terms of the specific agreement with the customer.

We record revenue based on the facts at the time of sale. Amounts that are not probable of collection once the product has shipped and title has transferred to the customer are deferred until the amount that is probable of collection can be determined. Items that are considered when determining the amounts that will be ultimately collected are: a customer s overall creditworthiness and payment history, customer rights to return unsold product, customer rights to price protection, customer payment terms conditioned on sale or use of product by the customer, or extended payment terms granted to a customer.

For distributor transactions, revenue is not recognized until product is shipped to the end customer and the amount that will ultimately be collected is determinable. Upon shipment of product to these distributors, title to the inventory transfers to the distributor and the distributor is invoiced, generally with 30 day terms. On

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shipments 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 our 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.

We record reductions in revenue for estimated pricing adjustments related to price protection and unit rebate agreements, in the same period that the related revenue is recorded. Price protection pricing adjustments are recorded at the time of sale as a reduction to revenue and an increase in our accrued liabilities. We may enter into unit rebate agreements with end customers based on volume purchases. We estimate that all of the unit rebates will be achieved based on the history of these programs, reduce the average selling price of the product sold under the rebate program and defer revenue for the difference between the amount billed to the customer and the adjusted average selling price. Once the targeted level is achieved, the deferred revenue is recognized as revenue as rebated products are shipped to the end customer. Deferred revenue associated with rebate programs is included in deferred revenue and deferred profit in the consolidated balance sheet.

Allowance for Doubtful Accounts

We perform ongoing credit evaluations of our customers and adjust credit limits based on each customers credit worthiness, as determined by our review of current credit information. We continuously monitor collections and payments from our customers and maintain an allowance for doubtful accounts based upon our historical experience, our anticipation of uncollectible accounts receivable and any specific customer collection issues that we have identified. While our credit losses have historically been insignificant, we may experience higher credit loss rates in the future than we have in the past. Our receivables are concentrated in relatively few customers. Therefore, a significant change in the liquidity or financial position of any one significant customer could make collection of our accounts receivable more difficult, require us to increase our allowance for doubtful accounts and negatively affect our working capital.

Inventory Valuation

We continually assess the recoverability of our inventory based on assumptions about demand and market conditions. Forecasted demand is determined based on historical sales and expected future sales. We value our inventory at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or its current estimated market value. We reduce our inventory to the estimated lower of cost or market value on a part-by-part basis to account for its obsolescence or lack of marketability. Reductions are calculated as the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required that may adversely affect our operating results. If actual market conditions are more favorable, we may have higher gross profits when products are sold.

Intangible Assets

Technologies acquired or licensed from other companies are capitalized and amortized over the greater of the terms of the agreement, or estimated useful life, not to exceed three years.

Impairment of Long-Lived Assets

We regularly review the carrying amount of our 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.

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Income Taxes

We provide for income taxes utilizing the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes generally represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from the differences between the financial and tax bases of our assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when a judgment is made that is considered more likely than not that a tax benefit will not be realized. A decision to record a valuation allowance results in an increase in income tax expense or a decrease in income tax benefit. If the valuation allowance is released in a future period, income tax expense will be reduced accordingly.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. The impact of an uncertain income tax position is recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We will continue to assess the need for a valuation allowance on the deferred tax asset by evaluating both positive and negative evidence that may exist. Any adjustment to the net deferred tax asset valuation allowance would be recorded in the income statement for the period that the adjustment is determined to be required.

Stock-Based Compensation

We measure the cost of employee services received in exchange for equity incentive awards, including stock options, employee stock purchase rights and restricted stock units, based on the grant date fair value of the award. We use the Black-Scholes valuation model to calculate the fair value of stock options and employee stock purchase rights granted to employees. We calculate the fair value of restricted stock units based on the fair market value of our Class A common stock on the grant date. Stock-based compensation expense is recognized over the period during which the employee is required to provide services in exchange for the award, which is usually the vesting period. We recognize compensation expense over the vesting period using the straight-line method and classify these amounts in the statements of operations based on the department to which the related employee reports.

We account for stock options issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value determined using the Black-Scholes option-pricing model. The fair value of options granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered. We calculate the fair value of restricted stock units issued to non-employees based on the fair market value of our Class A common stock on the grant date and the resulting stock-based compensation expense is recognized over the period during which the non-employee is required to provide services in exchange for the award, which is usually the vesting period.

Results of Operations

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

Net Revenue. Net revenue is generated from sales of our RF receivers and RF receiver SoCs. A majority of our end customers purchase 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.

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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.

Interest Income. Interest income consists of interest earned on our cash, cash equivalents and investment balances.

Interest Expense. Interest expense consists primarily of imputed interest on i) the purchase of licensed technology and ii) property and equipment capital leases.

Other Income (expense). Other income (expense) generally consists of income (expense) generated from minor non-operating transactions.

Provision for Income Taxes. Income tax expense is primarily due to the establishment of a valuation allowance on the net federal deferred tax asset in the third quarter of 2011. The income tax benefit for the year ended December 31, 2010 includes the reversal of our valuation allowance previously offsetting our federal deferred tax assets. Income tax expense for the year ended December 31, 2009 relates to current federal alternative minimum tax and California income taxes. Due to net operating loss limitations, the Company s net operating losses did not fully offset the federal alternative minimum taxes and California income taxes.

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

	Years Ended December 31,		
	2011	**2010**	**2009**
Net revenue	100%	100%	100%
Cost of net revenue	37	31	33
Gross profit	63	69	67
Operating expenses:			
Research and development	56	41	39
Selling, general and administrative	28	23	19
Total operating expenses	84	64	58
Income (loss) from operations	(21)	5	9
Interest income			
Interest expense			
Other expense, net			(1)
Income (loss) before income taxes	(21)	5	8
Provision (benefit) for income taxes	10	(10)	
Net income (loss)	(31)%	15%	8%

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Comparison of the Fiscal Years Ended December 31, 2011, 2010 and 2009

Net Revenue

	Years Ended December 31,			% Change	
	2011	2010	2009	2011	2010
	(dollars in thousands)				
Net revenue	$ 71,937	$ 68,701	$ 51,350	5%	34%

Net revenue for the year ended December 31, 2011 increased by $3.2 million from 2010 primarily due to increase in sales revenue from cable products, offset by decrease in revenue derived from consumer terrestrial TV set-top box and mobile handset applications. We expect sales of our cable products to account for a substantial portion of our revenue growth, if any, in 2012. The demand for our terrestrial and cable TV products will depend on several factors, including the rate of worldwide transition from analog-to-digital terrestrial and cable TV broadcast, and the growth in demand, if any, for high speed broadband connectivity and multimedia content and services.

Net revenue for the year ended December 31, 2010 increased by $17.4 million from 2009 primarily due to an increase in shipments of our RF receiver products used in televisions, automotive navigation displays, PCs and set top box devices for digital terrestrial television, digital cable and IPTV applications. These gains were offset by a decrease in shipments and revenue from our mobile digital television RF receiver products for the Japanese handset market. In particular, these increases were primarily attributable to shipments and related revenue for digital televisions, PCTV, and automotive markets in Japan, and digital terrestrial TV set top boxes destined for end markets in Europe.

Cost of Net Revenue and Gross Profit

	Years Ended December 31,			% Change	
	2011	2010	2009	2011	2010
	(dollars in thousands)				
Cost of net revenue	$ 26,616	$ 21,560	$ 17,047	23%	26%
% of net revenue	37%	31%	33%		
Gross profit	$ 45,321	$ 47,141	$ 34,303	(4)%	37%
% of net revenue	63%	69%	67%		

Cost of net revenue increased by $5.1 million from 2010 to 2011. Gross profit decreased by $1.8 million from 2010 to 2011, reflecting a decrease in gross profit as a percentage of revenue from 69% to 63%. The decreases in both absolute gross profit and the gross profit percentage of net revenue were primarily due to decreases in average selling prices of several products whose average manufacturing costs decreased proportionally to a lesser extent than their average selling prices. Changes in product mix driven by significant declines in our higher margin mobile handset applications also contributed to the declines in gross margin as a percentage of revenue. We currently expect that gross profit percentage will fluctuate in the future, from quarter-to-quarter, based on changes in product mix, average selling prices, and average manufacturing costs.

Cost of net revenue and gross profit increased by $4.5 million and $12.8 million, respectively, from 2009 to 2010. These increases in cost of net revenue were principally due to increased sales of our second-generation global digital terrestrial television RF receiver product. The rise in shipments and, to a lesser extent, the reduction in per unit manufacturing cost of the second-generation global digital terrestrial television RF receiver products, resulted in the increases in both the absolute gross profit, and the gross profit percentage of net revenue in 2010.

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Research and Development

	Years Ended December 31,			% Change	
	2011	2010	2009	2011	2010
	(dollars in thousands)				
Research and development	$ 40,156	$ 27,725	$ 19,790	45%	40%
% of net revenue	56%	41%	39%		

Research and development expense for 2011 was $40.2 million, an increase of $12.4 million, or 45%, from 2010. This increase was primarily attributable to an increase in the number of new RF receiver SoC product development and existing product enhancement initiatives. The increase in research and development expense also includes a new initiative to develop MoCA®, or Multimedia over Coax Alliance, solutions for inside-the-home data, and video network connectivity. Investments in intellectual property and software related to connectivity technologies, including the acquisition of certain MoCA® intellectual property and connectivity-related software licenses, increased by $4.2 million compared to the prior year. Salary and benefits expense (including stock-based compensation) increased $5.8 million compared to the prior year. The increase in salary and benefits is primarily due to an increase in our average full-time-equivalent employee headcount compared to the prior year. Also contributing to the increases, compared to the prior year, were additional expenses for computer-aided design and related software license costs, new product engineering mask costs, supplies, travel and other costs. Entering into new technology licenses is a strategic decision made by management on a case by case basis. We cannot predict whether we will acquire more of these types of licenses, or the magnitude or timing of any such license acquisitions. Absent these types of licensing events, we expect our research and development expenses to increase in absolute dollars as we continue to focus on expanding our product portfolio and enhancing existing products.

Research and development expense for 2010 was $27.7 million, an increase of $7.9 million, or 40%, from 2009. This increase was primarily attributable to an increase in the overall number of new product development and existing product enhancement initiatives. These projects and initiatives related primarily to our RF receiver SoC products. Salary and benefits accounted for the largest portion of the increase at $6.7 million for 2010 (including stock-based compensation), reflecting growth in our average full-time-equivalent employee headcount compared to the prior year. Also contributing to the increases were additional expenses for supplies, travel and other costs, offset by decreases in acquired intellectual property and facility-related costs compared to the prior year.

Selling, General and Administrative

	Years Ended December 31,			% Change	
	2011	2010	2009	2011	2010
	(dollars in thousands)				
Selling, general and administrative	$ 20,178	$ 15,912	$ 9,921	27%	60%
% of net revenue	28%	23%	19%		

Selling, general and administrative expense for 2011 was $20.2 million, an increase of $4.3 million, or 27%, from 2010. This increase was primarily attributable to increase in costs associated with the need for larger scale operations to support the increase in demand for our products, and increased expenses associated with regulatory compliance initiatives, including compliance with the Sarbanes-Oxley Act. Specifically, the increase was attributable in part to an additional $2.4 million of incremental salary and benefit expenses in 2011 (including stock-based compensation). Also contributing to the increases were incremental legal, accounting and other professional expenses, consulting expenses, travel-related costs, and occupancy expenses. We expect selling, general and administrative expenses to increase in absolute dollars in the future as we expand our sales and marketing organization to enable expansion into existing and new markets, as we continue to build our international administrative infrastructure and as a result of the export compliance review.

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Selling, general and administrative expense for 2010 was $15.9 million, an increase of $6.0 million, or 60%, from 2009. This increase was primarily attributable to costs associated with the need for larger scale operations as a result of increased demand for our products and increased expenses as we prepared to become a public reporting company. Specifically, more than half of the increase was attributable to an additional $3.2 million of incremental salary and benefit expenses in 2010 (including stock-based compensation). Also contributing to the increase were incremental legal, accounting and other professional expenses associated with becoming a public company, distributor and sales representative commissions driven by increased sales of our products, consulting expenses, and additional travel, supplies, and facility-related costs.

Interest and Other Income (Expense)

	Years Ended December 31,		
	2011	2010	2009
Interest income	$ 292	$ 326	$ 51
Interest expense	(69)	(29)	(52)
Other expense, net	(241)	(58)	(32)

Interest income decreased in 2011 compared to 2010 due to lower investment balances, principally due to a change in the composition of cash equivalents and investments. Interest income increased in 2010 compared to 2009 due to higher cash and investment balances, principally due to the investment of the proceeds from our March 2010 IPO.

Interest expense increased in 2011 compared to 2010 related to an accrued technology license agreement with extended payment terms. Interest expense decreased in 2010 compared to 2009 due to lower outstanding debt balances.

Other expense, net in 2011 consisted primarily of losses on foreign currency transactions, investment management fees and lease settlement charges. Other expense, net in 2010 consisted primarily of losses on foreign currency transactions and investment management fees. Other expense, net in 2009 consisted primarily of the write-off of the carrying value of leasehold improvements in connection with vacating certain leased facilities.

Provision for Income Taxes

	Years Ended December 31,		
	2011	2010	2009
Provision for income taxes	$ 6,993	$ (6,371)	$ 230

The provision for income taxes for the year ended December 31, 2011 was $7.0 million or approximately (46.5)% of pre-tax loss compared to a benefit for income taxes of $6.4 million for the year ended December 31, 2010. The increase in the effective tax rate in the current year is primarily due to the establishment of a valuation allowance on the net federal deferred tax asset in the third quarter of 2011. In the third quarter of 2011, we evaluated our net deferred income taxes, which included an assessment of the cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance is required. After considering our recent history of losses and management s expectations of additional near-term losses, we recorded a valuation allowance on our net federal deferred tax assets, with a corresponding charge to our income tax provision of approximately $6.7 million during 2011. In addition, we continue to maintain a valuation allowance to offset the California deferred tax assets as realization of such assets does not meet the more-likely-than-not threshold required under accounting guidelines. We will continue to assess the need for a valuation allowance on the deferred tax assets by evaluating positive and negative evidence that may exist.

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The income tax benefit of $6.4 million for the year ended December 31, 2010 includes the reversal of our valuation allowance previously offsetting our federal deferred tax assets. The provision for income taxes for the year ended December 31, 2009 relates to current federal alternative minimum tax and California income taxes.

Subsequent Events

In the first quarter of 2012, we became aware that we may have taken actions that could constitute facilitation (within the meaning of applicable sanctions and export control laws) of shipments of foreign produced products to Iran or taken other actions that may be in violation of U.S. export control and economic sanctions laws. The potential violations related to the sale of certain of our tuner products to set-top box manufacturers in Asia to permit conversion of digital television signals to analog signals in international markets using the DVB-T broadcast standard. The DVB-T standard is used in most of Europe, Asia (excluding China), Australia, and Africa as well as in parts of the Middle East, including Iran. While the underlying shipment of our tuners into Iran by foreign manufacturers of these set-top boxes may have been lawful, our potential facilitation may have resulted in violation of applicable sanctions and export control laws without the proper U.S. Government authorization. Upon learning of these potential violations, which were discovered internally, our audit committee retained outside counsel to conduct a review of our sanctions and export control compliance. On February 7, 2012, we made voluntary initial filings with the Office of Foreign Assets Control of the United States Department of the Treasury (OFAC) and with the Bureau of Industry and Security of the United States Department of Commerce (BIS), notifying these regulatory agencies that we were conducting a review of export control matters and that we would submit any supplemental voluntary self disclosures once the internal review was complete. The initial stage of the review was concluded in March 2012. Outside counsel is now preparing the final voluntary disclosures to be submitted to OFAC and BIS. Based upon the facts known to us to date, we recorded an expense of $0.8 million, reflected in selling, general, and administrative expense, in the fourth quarter of 2011 for this export compliance matter, representing management s estimated exposure for civil penalties and fines in accordance with applicable accounting literature.

As we have voluntarily self-disclosed, OFAC or BIS could conduct their own investigation. Should additional facts be discovered in the future and/or should actual fines or other penalties differ from our estimates, our business, operating results, and financial condition could be materially and negatively affected. In that regard, we cannot guarantee that either OFAC or BIS will agree with our assessments of the quantity and nature of the potential violations. As a result, OFAC or BIS could seek to impose higher fines and penalties than those we have estimated to date. The maximum civil monetary penalty for each violation is up to $250,000 or twice the value of the transaction, whichever is greater.

Liquidity and Capital Resources

In March 2010, we received net proceeds from our IPO of approximately $72.9 million (after underwriters discounts of $5.8 million and additional offering related costs of approximately $4.2 million). Prior to the IPO, our primary sources of cash were, historically, proceeds from issuances of convertible preferred stock and cash collections from customers. As of December 31, 2011, we had cash and cash equivalents of $28.0 million, short-term investments of $47.2 million, long-term investments of $10.5 million and net accounts receivable of $10.4 million.

Our primary uses of cash are to fund operating expenses, purchases of inventory and the acquisition of property and equipment. Cash used to fund operating expenses excludes the impact of non-cash items such as depreciation and stock-based compensation 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.

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.

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

	Years Ended December 31, 2011	2010
	(in thousands)	
Working capital	$ 76,585	$ 95,444
Cash and cash equivalents	28,026	21,563

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

	Years Ended December 31, 2011	2010	2009
		(in thousands)	
Net cash provided by operating activities	$ (7,109)	$ 4,838	$ 9,860
Net cash provided by (used in) investing activities	10,818	(78,375)	391
Net cash provided (used in) by financing activities	2,733	77,170	(250)
Effect of exchange rates on cash and cash equivalents	21	9	1
Net increase in cash and cash equivalents	$ 6,463	$ 3,642	$ 10,002

Cash Flows from Operating Activities

Net cash used in operating activities in 2011 was $7.1 million. Net cash used in operating activities primarily consisted of a net loss of $22.0 million and $3.6 million in changes in operating assets and liabilities, offset by $18.5 million in non-cash operating expenses. Included in the changes in operating assets and liabilities was a $7.4 million increase in accounts receivable due to significantly greater shipments in the last month of the year ended December 31, 2011 compared to the last month of the year ended December 31, 2010 and the timing of cash receipts from customers and an increase in our accounts payable and accrued expenses related to our accrued technology license payments and estimated fines and penalties related to export compliance matters. Non-cash items included in net loss for the year ended December 31, 2011 included depreciation and amortization expense of $3.2 million, amortization of investment premiums, net of $1.2 million, stock-based compensation of $7.4 million, write down of long-lived assets of $0.1 million and a decrease in deferred income taxes of $6.6 million related to the recording of a valuation allowance on net federal deferred tax assets.

Net cash provided by operating activities in 2010 was $4.8 million. Net cash provided by operating activities primarily consisted of net income of $10.1 million and $0.7 million in non-cash operating expenses, offset by $6.0 million in changes in operating assets and liabilities. Our deferred income taxes increased in 2010 as a result of the release of our valuation allowance. Our increase in inventory and decreases in accounts receivable and deferred revenue and profit were due to a reduction in shipments to distributors in the second half of 2010 as customers either reduced the amount of purchase orders within lead time or requested rescheduling of shipments.

Net cash provided by operating activities in 2009 was $9.9 million. Net cash provided by operating activities primarily consisted of net income of $4.3 million, $1.8 million in non-cash operating expenses and $3.7 million in changes in operating assets and liabilities. Our accounts receivable increased as a result of significantly higher distributor shipments in 2009 and our inventory decreased as a result of sales and production being more closely matched in 2009. Our accounts payable and accrued expenses increased in 2009 in support of our increased production volumes and overall operational growth. Deferred revenue and deferred profit increased as our revenue grew and our distributors carried higher inventory balances.

Cash Flows from Investing Activities

Net cash provided by investing activities in 2011 was $10.8 million. Net cash provided by investing activities primarily consisted of $125.4 million in maturities of securities, offset by $111.4 million in purchases

of securities, $3.0 million in purchases of property and equipment and $0.2 million in purchases of intangibles. Net cash used in investing activities during the year ended December 31, 2010 consisted of $111.8 million in purchases of securities, $3.0 million in purchases of property and equipment and $1.3 million in purchases of intangibles, offset by $37.7 million in maturities of securities. Net cash provided by investing activities during the year ended December 31, 2009 consisted of sales of investment securities, net of purchases, of $1.8 million. Purchases of property and equipment accounted for $1.4 million in 2009.

Cash Flows from Financing Activities

Net cash provided by financing activities in 2011 was $2.7 million. Net cash provided by financing activities consisted primarily of proceeds from issuance of common stock of $2.8 million offset by payments on capital leases of $0.1 million.

Net cash provided by financing activities during the year ended December 31, 2010 was primarily due to the net cash provided from our IPO of $75.6 million.

Net cash used in financing activities during the year ended December 31, 2009 consisted of $0.1 million for the repayment of equipment financing and $0.8 million for costs paid in connection with our initial public offering, offset by $0.6 million of net proceeds from the exercise of stock options.

Contractual Obligations, Commitments and Contingencies

The following table summarizes our outstanding contractual obligations as of December 31, 2011:

	Payments Due by Period					
	Total	2012	2013	2014	2015	2016 and Thereafter
	(in thousands)					
Capital lease obligations (including interest)	$ 36	$ 33	$ 3	$	$	$
Operating lease obligations	3,044	1,015	979	638	299	113
Other obligations	5,846	3,689	2,028	129		
Inventory purchase obligations	2,767	2,767				
Total contractual obligations	$ 11,693	$ 7,504	$ 3,010	$ 767	$ 299	$ 113

Other obligations represent purchase commitments for software licensing agreements, information systems infrastructure and other commitments made in the ordinary course of business.

We are unable to make a reasonably reliable estimate as to when or if cash settlement with taxing authorities will occur for our unrecognized tax benefits. Therefore, our unrecognized tax benefits of $3 million are not included in the table above.

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 by-laws 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. We have not been subject to any material liabilities under such provisions and therefore believe that our exposure for these indemnification obligations is minimal. Accordingly, we have no liabilities recorded for these indemnity agreements as of December 31, 2011.

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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 December 31, 2011, we were not involved in any unconsolidated SPE transactions.

Recent Accounting Pronouncements

For additional information regarding recently adopted and issued accounting pronouncements, see Note 1 of the notes to consolidated financial statements contained within this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

To date, our international customer and vendor agreements have been denominated almost exclusively 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 Sensitivity

We had cash and cash equivalents of $28.0 million at December 31, 2011, 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 these 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 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).

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this item are included in Part IV, Item 15 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A. 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, principal financial officer and principal accounting 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 Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer, principal financial officer and principal accounting 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 Form 10-K. Based on their evaluation, our principal executive officer, principal financial officer and principal accounting officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Form 10-K.

Management s Annual Report on Internal Controls over Financial Reporting

Our management, including our principal executive officer, principal financial officer and principal accounting officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management, including our principal executive officer, principal financial officer and principal accounting officer, evaluated the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Ernst & Young LLP, an independent registered public accounting firm, and Ernst & Young LLP has issued a report on our internal control over financial reporting, as stated within their report which is included herein.

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, principal financial officer and principal accounting officer, to determine whether any change in our internal control over financial reporting occurred during the fiscal quarter ended December 31, 2011 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 December 31, 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

MaxLinear, Inc.

We have audited MaxLinear, Inc. s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). MaxLinear, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, MaxLinear, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of MaxLinear, Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, convertible preferred stock and stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2011 of MaxLinear, Inc. and our report dated March 14, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

March 14, 2012

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 with respect to our directors and executive officers is incorporated by reference from the information set forth under the captions Proposal Number *1* Election of Class III Director By Class A and Class B Common Stock and Executive Officers in our Definitive Proxy Statement to be filed in connection with our 2012 Annual Meeting of Stockholders, or the 2012 Proxy Statement, which will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

Item 405 of Regulation S-K calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16(a) of the Exchange Act. This information is contained under the caption Related Person Transactions and Section 16(a) Beneficial Ownership Reporting Compliance in the 2012 Proxy Statement and is incorporated herein by reference.

Code of Conduct

We have adopted a code of ethics and employee conduct that applies to our board of directors and all of our employees, including our chief executive officer, principal financial officer, and principal accounting officer.

Our code of conduct is available at our website by visiting *www.maxlinear.com* and clicking through Investors, Corporate Governance, and Code of Conduct. When required by the rules of the New York Stock Exchange, or NYSE, or the Securities and Exchange Commission, or SEC, we will disclose any future amendment to, or waiver of, any provision of the code of conduct for our chief executive officer, principal financial officer, or principal accounting officer or any member or members of our board of directors on our website within four business days following the date of such amendment or waiver.

The information required by Item 10 with respect to our audit committee is incorporated by reference from the information set forth under the caption Corporate Governance and Board of Directors Board Committees in the 2012 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from the information set forth under the captions Compensation of Non-Employee Directors and Executive Compensation, in our 2012 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated by reference from the information set forth under the captions Executive Compensation Equity Compensation Plan Information and Security Ownership, in our 2012 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference from the information set forth under the captions Corporate Governance and Board of Directors Director Independence and Related Person Transactions and Section 16(a) Beneficial Ownership Reporting Compliance, in our 2012 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is incorporated by reference from the information set forth under the caption Proposal Number V Ratification of Selection of Independent Registered Public Accounting Firm, in our 2012 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES
a) Documents filed as part of the report

1. Financial Statements

Our consolidated financial statements are attached hereto and listed on the Index to Consolidated Financial Statements set forth on page F-1 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

Schedule II. Valuation and Qualifying Accounts Years ended December 31, 2011, 2010 and 2009

All other schedules are omitted as the required information is inapplicable, or the information is presented in the financial statements or related notes.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS (in thousands):

Classification	Balance at beginning of year	Additions charged to expenses	(Deductions)	Balance at end of year
Inventory reserves				
2011	$ 148	$ 61	$ (92)	$ 117
2010	120	85	(57)	148
2009	43	90	(13)	120

3. Exhibits

Exhibit Number	Exhibit Title
3.1	Registrant s Amended and Restated Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on March 29, 2010 (incorporated by reference to Exhibit 3.5 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
3.2	Registrant s Amended and Restated Bylaws (incorporated by reference to Exhibit 3.8 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
4.1	Specimen common stock certificate of Registrant (incorporated by reference to Exhibit 4.1 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.1	Form of Director and Executive Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.2	Form of Director and Controlling Person Indemnification Agreement (incorporated by reference to Exhibit 10.2 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.3	2004 Stock Plan, as amended (incorporated by reference to Exhibit 10.3 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.4	Form of Stock Option Agreement under the 2004 Stock Plan (incorporated by reference to Exhibit 10.4 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).

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Exhibit Number	Exhibit Title
+10.5	Amendment No. 1 to the form of Stock Option Agreement under the 2004 Stock Plan (incorporated by reference to Exhibit 10.5 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.6	2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.7	Form of Agreement under the 2010 Equity Incentive (incorporated by reference to Exhibit 10.10 of the Registrant s Quarterly Report on Form 10-Q filed on July 28, 2011 (File No. 001-34666)).
*+10.8	2010 Employee Stock Purchase Plan.
+10.9	Employment Offer Letter, dated December 20, 2010, between the Registrant and Adam C. Spice (incorporated by reference to Exhibit 99.2 to the Registrant s Current Report on Form 8-K, filed with the SEC on December 28, 2010).
+10.10	Employment Offer Letter, dated June 24, 2011, between the Registrant and Brian Sprague (incorporated by reference to Exhibit 10.10 of the Registrant s Quarterly Report on Form 10-Q filed on July 28, 2011 (File No. 001-34666)).
+10.11	Employment Offer Letter, dated September 12, 2008, between the Registrant and Michael Kastner (incorporated by reference to Exhibit 10.11 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.11.1	Employment Offer Letter, dated December 8, 2009, between the Registrant and Patrick E. McCready (incorporated by reference to Exhibit 10.11.1 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.12	Form of Change in Control Agreement for Chief Executive Officer and Chief Financial Officer (incorporated by reference to Exhibit 10.12 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.13	Form of Change in Control Agreement for Executive Officers (incorporated by reference to Exhibit 10.13 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
10.14	Lease Agreement, dated May 18, 2009, between the Registrant and JCCE Palomar, LLC (incorporated by reference to Exhibit 10.14 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
10.15	Sublease Agreement, dated May 9, 2009, between the Registrant and CVI Laser, LLC (incorporated by reference to Exhibit 10.15 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
10.16	Intellectual Property License Agreement, dated June 18, 2009, between the Registrant and Intel Corporation, (incorporated by reference to Exhibit 10.16 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
10.17	(Removed and Reserved)
10.18	Distributor Agreement, dated June 5, 2009, between the Registrant and Moly Tech Limited (incorporated by reference to Exhibit 10.18 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
10.19	Distributor Agreement, dated October 3, 2005, between the Registrant and Tomen Electronics Corporation (incorporated by reference to Exhibit 10.19 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).

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Exhibit Number	Exhibit Title
10.20	Distributor Agreement, dated August 19, 2009, between the Registrant and Lestina International Ltd. (incorporated by reference to Exhibit 10.20 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
+10.21	MaxLinear, Inc. Executive Bonus Plan (incorporated by reference to Exhibit 10.21 of the Registrant s Registration Statement on Form S-1 and all amendments thereto (File No. 333-162947)).
*+10.22	Employment Offer Letter, dated April 22, 2011, between the Registrant and Michael LaChance.
*11.1	Statement re computation of income (loss) per share (included on page F-14 of this Form 10-K).
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 of the Registrant s Quarterly Report on Form 10-Q filed on November 1, 2011 (File No. 001-34666)).
*23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
*24.1	Power of Attorney (included on the signature page of this Form 10-K).
*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

* Filed herewith.

** In accordance with Rule 402 of Regulation S-T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

\+ Indicates a management contract or compensatory plan.

Confidential treatment has been requested and received for certain portions of these exhibits.

(b) Exhibits

The exhibits filed as part of this report are listed in Item 15(a)(3) of this Form 10-K.

(c) Schedules

The financial statement schedules required by Regulation S-X and Item 8 of this form are listed in Item 15(a)(2) of this Form 10-K.

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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)

By: /s/ KISHORE SEENDRIPU, PH.D.
Kishore Seendripu, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 14, 2012

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Kishore Seendripu, Ph.D., and Adam C. Spice, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, to sign any and all amendments (including post-effective amendments) to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each of said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-facts and agents, or his substitute or substitutes, or any of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ KISHORE SEENDRIPU, PH.D.	President and Chief Executive Officer	March 14, 2012
Kishore Seendripu, Ph.D.	(Principal Executive Officer)	
/s/ ADAM C. SPICE	Vice President and Chief Financial Officer	March 14, 2012
Adam C. Spice	(Principal Financial Officer)	
/s/ THOMAS E. PARDUN	Lead Director	March 14, 2012
Thomas E. Pardun		
/s/ STEVEN C. CRADDOCK	Director	March 14, 2012
Steven C. Craddock		
/s/ DAVID LIDDLE, PH.D.	Director	March 14, 2012
David Liddle, Ph.D		
/s/ CURTIS LING	Director	March 14, 2012
Curtis Ling, Ph.D		

/s/ ALBERT J. MOYER	Director	March 14, 2012
Albert J. Moyer		
/s/ DONALD E. SCHROCK	Director	March 14, 2012
Donald E. Schrock		

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MaxLinear, Inc.

Index to Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

MaxLinear, Inc.

We have audited the accompanying consolidated balance sheets of MaxLinear, Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, convertible preferred stock and stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These consolidated financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

March 14, 2012

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MAXLINEAR, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par amounts)

	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 28,026	$ 21,563
Short-term investments, available-for-sale	47,156	72,923
Accounts receivable	10,421	3,047
Inventory	8,082	7,425
Deferred income taxes, prepaid expenses and other current assets	1,394	4,232
Total current assets	95,079	109,190
Property and equipment, net	5,494	4,535
Long-term investments, available-for-sale	10,554	
Intangible assets	1,021	980
Deferred income taxes and other long-term assets	228	4,213
Total assets	$ 112,376	$ 118,918
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 4,936	$ 2,877
Deferred revenue and deferred profit	4,029	5,322
Accrued expenses	7,403	1,558
Accrued compensation	2,094	2,145
Amounts due to related party		1,746
Current portion of capital lease obligations	32	98
Total current liabilities	18,494	13,746
Other long-term liabilities	855	257
Capital lease obligations, net of current portion	2	18
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, 19,107 and 13,170 shares issued and outstanding at December 31, 2011 and 2010, respectively	2	1
Class B common stock, $0.0001 par value; 500,000 shares authorized, 14,143 and 18,720 shares issued and outstanding at December 31, 2011 and 2010, respectively	1	2
Additional paid-in capital	126,695	116,512
Accumulated other comprehensive income	14	45
Accumulated deficit	(33,687)	(11,663)
Total stockholders equity	93,025	104,897
Total liabilities and stockholders equity	$ 112,376	$ 118,918

See accompanying notes.

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MAXLINEAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Years Ended December 31, 2011	2010	2009
Net revenue	$ 71,937	$ 68,701	$ 51,350
Cost of net revenue	26,616	21,560	17,047
Gross profit	45,321	47,141	34,303
Operating expenses:			
Research and development	40,156	27,725	19,790
Selling, general and administrative	20,178	15,912	9,921
Total operating expenses	60,334	43,637	29,711
Income (loss) from operations	(15,013)	3,504	4,592
Interest income	292	326	51
Interest expense	(69)	(29)	(52)
Other expense, net	(241)	(58)	(32)
Income (loss) before income taxes	(15,031)	3,743	4,559
Provision (benefit) for income taxes	6,993	(6,371)	230
Net income (loss)	(22,024)	10,114	4,329
Net income allocable to preferred stockholders		(1,215)	(3,691)
Net income (loss) attributable to common stockholders	$ (22,024)	$ 8,899	$ 638
Net income (loss) per share attributable to common stockholders[(1)]:			
Basic	$ (0.68)	$ 0.33	$ 0.06
Diluted	$ (0.68)	$ 0.30	$ 0.06
Shares used to compute net income (loss) per share attributable to common stockholders:			
Basic	32,573	26,743	10,129
Diluted	32,573	29,478	11,512

(1) As a result of the conversion of the Company s preferred stock into 14,526 shares of its Class B common stock immediately prior to the completion of the Company s initial public offering in March 2010, there is a lack of comparability in the basic and diluted net income (loss) per share amounts between the periods presented herein and any historical or future periods.

See accompanying notes.

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MAXLINEAR, INC.

CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)

(in thousands)

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Other Compreh-ensive Income	Accumulated Deficit	Total Stock-holders Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2008	7,554	$ 15,351	6,972	$ 20,000	9,900	$ 1		$		$	$ 737	$ 5	$ (26,106)	$ (25,363)
Common stock issued upon exercise of stock options					837						605			605
Stock-based compensation											959			959
Comprehensive income:														
Unrealized loss on investments												(2)		(2)
Foreign currency translation adjustments												(3)		(3)
Net income													4,329	4,329
Comprehensive income														4,324
Balance at December 31, 2009	7,554	15,351	6,972	20,000	10,737	1					2,301		(21,777)	(19,475)
Conversion of Series A and B preferred stock to Class A and B common stock	(7,554)	(15,351)	(6,972)	(20,000)			1,491		13,035	1	35,350			35,351
Conversion of common stock to Class B common stock					(10,737)	(1)			10,737	1				
Conversion of Class B common stock to Class A common stock							5,680		(5,680)					
IPO gross proceeds, net of costs							5,920	1			72,903			72,904
Common stock issued upon exercise of stock options									628		1,043			1,043
							79				700			700

Employee stock purchase plan											
Stock-based compensation								4,215			4,215
Comprehensive income:											
Unrealized gain on investments, net of tax									28		28
Foreign currency translation adjustments									17		17
Net income										10,114	10,114
Comprehensive income											10,159
Balance at December 31, 2010				13,170	1	18,720	2	116,512	45	(11,663)	104,897
Conversion of Class B common stock to Class A common stock				5,557	1	(5,557)	(1)				
Common stock issued pursuant to equity awards, net				133		980		1,469			1,469
Employee stock purchase plan				247				1,346			1,346
Stock-based compensation								7,368			7,368
Comprehensive loss:											
Unrealized loss on investments									(62)		(62)
Foreign currency translation adjustments									31		31
Net loss										(22,024)	(22,024)
Comprehensive loss											(22,055)
Balance at December 31, 2011	$	$	$	19,107	$ 2	14,143	$ 1	$ 126,695	$ 14	$ (33,687)	$ 93,025

See accompanying notes.

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MAXLINEAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2011	**2010**	**2009**
Operating Activities			
Net income (loss)	$ (22,024)	$ 10,114	$ 4,329
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Amortization and depreciation	3,159	1,873	841
Amortization of investment premiums, net	1,179	1,258	(1)
Stock-based compensation	7,368	4,215	959
Deferred income taxes	6,668	(6,668)	
Gain on sale of available-for-sale securities	(9)		
Write down of long-lived assets	150	36	32
Changes in operating assets and liabilities:			
Accounts receivable	(7,374)	6,660	(8,356)
Inventory	(657)	(4,575)	825
Prepaid and other assets	155	(1,458)	(1,680)
Accounts payable and accrued expenses	6,768	(1,937)	2,902
Amounts due to related party	(1,746)	(762)	2,168
Accrued compensation	(51)	424	1,220
Deferred revenue and deferred profit	(1,293)	(4,528)	6,550
Other long-term liabilities	598	186	71
Net cash provided by (used in) operating activities	(7,109)	4,838	9,860
Investing Activities			
Purchase of property and equipment	(2,962)	(2,960)	(1,409)
Purchases of intangibles	(201)	(1,275)	
Purchases of available-for-sale securities	(111,369)	(111,807)	
Maturities of available-for-sale securities	125,350	37,667	1,800
Net cash provided by (used in) investing activities	10,818	(78,375)	391
Financing Activities			
Payments on capital leases	(82)	(123)	(108)
Proceeds from issuance of common stock	2,815	1,743	605
Proceeds from initial public offering, net of costs		75,550	(747)
Net cash provided by (used in) financing activities	2,733	77,170	(250)
Effect of exchange rate changes on cash and cash equivalents	21	9	1
Increase in cash and cash equivalents	6,463	3,642	10,002
Cash and cash equivalents at beginning of year	21,563	17,921	7,919
Cash and cash equivalents at end of year	$ 28,026	$ 21,563	$ 17,921
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 9	$ 29	$ 45
Cash paid for income taxes	$	$ 382	$ 411

Supplemental disclosures of non cash investing and financing information:

Unrealized gain (loss) on available-for-sale securities	$	(20)	$	42	$	(2)
Accrued purchase of property and equipment	$	708	$	554	$	359

See accompanying notes.

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MAXLINEAR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Organization and Summary of Significant Accounting Policies

Description of Business

MaxLinear, Inc. (the Company) was incorporated in Delaware in September 2003. The Company is a provider of highly integrated, radio-frequency analog and mixed-signal semiconductor solutions for broadband communications applications whose customers include module makers, original equipment manufacturers, or OEMs, and original design manufacturers, or ODMs, who incorporate the Company s products in a wide range of stationary and mobile electronic devices including mobile handsets, cable and terrestrial set top boxes, televisions, personal computers and netbooks and automotive entertainment applications. The Company is a fabless semiconductor company focusing its resources on the design, sales and marketing of its products.

Initial Public Offering

In March 2010, the Company completed the initial public offering, or IPO, of its Class A common stock in which it sold and issued 5,920 shares of Class A common stock at an issue price of $14.00 per share. The Company raised a total of $82.9 million in gross proceeds in the IPO, or approximately $72.9 million in net proceeds after deducting underwriting discounts and commissions of $5.8 million and other offering costs of $4.2 million. Immediately prior to the closing of the IPO, all shares of the Company s then-outstanding convertible preferred stock automatically converted into 14,526 shares of Class B common stock.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of MaxLinear, Inc. and its wholly owned subsidiaries. All intercompany transactions and investments have been eliminated in consolidation.

The functional currency of certain foreign subsidiaries is the local currency. Accordingly, assets and liabilities of these foreign subsidiaries are translated at the current exchange rate at the balance sheet date and historical rates for equity. Revenue and expense components are translated at weighted average exchange rates in effect during the period. Gains and losses resulting from foreign currency translation are included as a component of stockholders equity. Foreign currency transaction gains and losses are included in the results of operations and, to date, have not been significant.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes of the consolidated financial statements. Actual results could differ from those estimates.

Stock Split

On July 16, 2009, the Company effected a four-for-three forward stock split of the Company s outstanding common and preferred stock. On March 5, 2010, the Company effected a 1.5484-for-1 reverse stock split of the Company s outstanding common and preferred stock. The accompanying consolidated financial statements and notes to the consolidated financial statements give retroactive effect to the stock splits for all periods presented.

Cash and Cash Equivalents

The Company considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are recorded at cost, which approximates market value.

MAXLINEAR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accounts Receivable

The Company monitors collections and payments from its customers. As of December 31, 2011 and 2010 the Company did not have an allowance for doubtful accounts based on no historical experience, anticipation of uncollectible accounts receivable nor any specific customer collection issues that are identified.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market and includes materials and manufacturing overhead. The Company periodically reviews inventory for evidence of slow-moving or obsolete parts on a part-by-part basis, and the estimated reserve is based on management s reviews of inventory on hand, compared to estimated future usage and sales, and assumptions about the likelihood of obsolescence. Once established, these adjustments are considered permanent and are not revised until the related inventory is sold or disposed of.

Newly developed products are generally not valued until they have been qualified for manufacturing and success in the marketplace has been demonstrated through sales and backlog, among other factors.

Investments, Available-for-Sale

The Company classifies all investments as available-for-sale, as the sale of such investments may be required prior to maturity to implement management strategies. These investments are carried at fair value, with unrealized gains and losses reported as accumulated other comprehensive income (loss) until realized. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion, as well as interest and dividends, are included in interest income. Realized gains and losses from the sale of available-for-sale investments, if any, are determined on a specific identification basis and are also included in interest income.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and compensation are considered to be representative of their respective fair value because of the short-term nature of these items. Investment securities, available-for-sale, are carried at fair value. Based on the borrowing rates currently available to the Company for loans with similar terms, the Company believes the fair value of long-term capital lease obligations approximates its carrying value.

Property and Equipment

Property and equipment is carried at cost and depreciated over the estimated useful lives of the assets, ranging from two to five years, using the straight-line method. Leasehold improvements are stated at cost and amortized over the shorter of the estimated useful lives of the assets or the lease term.

Impairment of Long-Lived Assets

The Company regularly reviews the carrying amount of its long-lived assets, as well as the useful lives, to determine whether indicators of impairment may exist which warrant adjustments to carrying values or estimated useful lives. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. Should impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset over the asset s fair value.

MAXLINEAR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Intangible Assets

Technologies acquired or licensed from other companies are capitalized and amortized over the greater of the terms of the agreement, or estimated useful life, not to exceed three years.

Revenue Recognition

Revenue is generated from sales of the Company s integrated circuits. The Company recognizes revenue when all of the following criteria are met: 1) there is persuasive evidence that an arrangement exists, 2) delivery of goods has occurred, 3) the sales price is fixed or determinable and 4) collectibility is reasonably assured. Title to product transfers to customers either when it is shipped to or received by the customer, based on the terms of the specific agreement with the customer.

Revenue is recorded based on the facts at the time of sale. Amounts that are not probable of collection once the product has shipped and title has transferred to the customer are deferred until the amount that is probable of collection can be determined. Items that are considered when determining the amounts that will be ultimately collected are: a customer s overall creditworthiness and payment history, customer rights to return unsold product, customer rights to price protection, customer payment terms conditioned on sale or use of product by the customer, or extended payment terms granted to a customer.

For distributor transactions, revenue is not recognized until product is shipped to the end customer and the amount that will ultimately be collected is determinable. Upon shipment of product to these distributors, title to the inventory transfers to the distributor and the distributor is invoiced, generally with 30 day terms. On shipments where revenue is not recognized, the Company records a trade receivable for the selling price as there is a legally enforceable right to payment, relieving the inventory for the carrying value of goods shipped since legal title has passed to the distributor, and records the corresponding gross profit in the consolidated balance sheet as a component of deferred revenue and deferred profit, representing the difference between the receivable recorded and the cost of inventory shipped.

The Company records reductions in revenue for estimated pricing adjustments related to price protection and unit rebate agreements, in the same period that the related revenue is recorded. Price protection pricing adjustments are recorded at the time of sale as a reduction to revenue and an increase in the Company s accrued liabilities. The Company may enter into unit rebate agreements with end customers based on volume purchases. The Company estimates that all of the unit rebates will be achieved based on the history of these programs, reduces the average selling price of the product sold under the rebate program and defers revenue for the difference between the amount billed to the customer and the adjusted average selling price. Once the targeted level is achieved, the deferred revenue is recognized as revenue as rebated products are shipped to the end customer. Deferred revenue associated with rebate programs is included in deferred revenue and deferred profit in the consolidated balance sheet.

Warranty

The Company generally provides a warranty on its products for a period of one year. The Company makes estimates of product return rates and expected costs to replace the products under warranty at the time revenue is recognized based on historical warranty experience and any known product warranty issues. If actual return rates and/or replacement costs differ significantly from these estimates, adjustments to recognize additional cost of net revenue may be required in future periods. At December 31, 2011 and 2010, no accrual for warranty costs was recorded based on the Company s analysis. During 2011, 2010 and 2009, warranty costs incurred totaled $3, $2 and $40, respectively.

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MAXLINEAR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Segment Information

The Company operates in one segment related to the design, development and sale of RF analog and mixed-signal semiconductor solutions for broadband communications applications. The Company s chief operating decision-maker is its chief executive officer, who reviews operating results on an aggregate basis and manages the Company s operations as a single operating segment.

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 consumer electronics and communications companies throughout the world. The Company makes periodic evaluations of the credit worthiness of its customers and does not require collateral for credit sales. The Company has not had any bad debt expense since inception.

Customers directly invoiced by the Company representing greater than 10% of net revenue for each of the periods are as follows:

	Years Ended December 31,		
	2011	2010	2009
Percentage of total net revenue			
Tomen Electronics Corp.	38%	57%	54%
Asia Fortune Electronics Enterprise	17	12	*
Unihan Corporation	11	*	*
Lestina International Ltd.	*	13	27
Moly Tech, Limited	*	11	11

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

Revenues by country representing greater than 10% of net revenue for each of the periods are as follows:

	Years Ended December 31,		
	2011	2010	2009
Percentage of total net revenue			
Japan	39%	57%	54%
Taiwan	30	13	*
China	15	24	39

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

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MAXLINEAR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Customers whose balance represents greater than 10% of accounts receivable is as follows:

	December 31,	
	2011	2010
Percentage of gross accounts receivable:		
Asia Fortune Electronics Enterprise	20%	25%
Moly Tech Limited	19	*
Unihan Corporation	12	*
Tomen Electronics Corp.	*	32
Lestina International Ltd.	*	16
Jabil Industrial do Brasil Ltda	*	10

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

Net revenue to customers in foreign countries, substantially all in Asia, is as follows:

	Years Ended December 31,		
	2011	2010	2009
Percentage of total net revenue			
Net revenue to customers in foreign countries	99%	100%	99%

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

Stock-based Compensation

The Company measures the cost of employee services received in exchange for equity incentive awards, including stock options, employee stock purchase rights and restricted stock units, based on the grant date fair value of the award. The Company uses the Black-Scholes valuation model to calculate the fair value of stock options and employee stock purchase rights granted to employees. The Company calculates the fair value of restricted stock units based on the fair market value of its Class A common stock on the grant date. Stock-based compensation expense is recognized over the period during which the employee is required to provide services in exchange for the award, which is usually the vesting period. The Company recognizes compensation expense over the vesting period using the straight-line method and classifies these amounts in the statements of operations based on the department to which the related employee reports.

The Company accounts for stock options issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value determined using the Black-Scholes option-pricing model. The fair value of options granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered. The Company calculates the fair value of restricted stock units issued to non-employees based on the fair market value of our Class A common stock on the grant date and the resulting stock-based compensation expense is recognized over the period during which the non-employee is required to provide services in exchange for the award, which is usually the vesting period.

Research and Development

Costs incurred in connection with the development of the Company s technology and future products are charged to research and development expense as incurred.

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Income Taxes

The Company accounts for income taxes using the asset and liability method to compute the differences between the tax basis of assets and liabilities and the related financial amounts, using currently enacted tax rates.

The Company has deferred tax assets, which are subject to periodic recoverability assessments. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income (loss) income includes certain changes in equity that are excluded from net income (loss), such as unrealized holding gains and losses on available-for-sale investments, net of tax, and translation gains and losses.

Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) attributable to the Company by the weighted average number of shares of Class A and Class B common stock outstanding during the period. For diluted net income (loss) per share, net income attributable to the Company is divided 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.

Recent Accounting Pronouncements

Effective January 1, 2011, the Company adopted the deferred provisions of the Financial Accounting Standards Board s, or FASB, updated guidance related to fair value measurements and disclosures, which require disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The Company s adoption of the deferred provisions did not have an impact on its consolidated financial statements.

Effective January 1, 2011, the Company adopted the FASB s new standards for revenue recognition with multiple deliverables. These new standards impact the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. Additionally, these new standards modify the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. The Company s adoption of the new standards did not have a material impact on its consolidated financial statements.

Effective January 1, 2011, the Company adopted the FASB s new standards for the accounting for certain revenue arrangements that include software elements. These new standards amend the scope of pre-existing software revenue guidance by removing from the guidance non-software components of tangible products and certain software components of tangible products. The Company s adoption of the new standards did not have an impact on its consolidated financial statements.

In May 2011, the FASB issued updated guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for the Company beginning in the first quarter of fiscal year 2012. The Company does not expect this additional guidance to significantly impact its consolidated financial statements.

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In June 2011, the FASB issued a new standard regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation on the face of the financial statements of reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. This new standard is effective on a retrospective basis for the Company beginning in the first quarter of fiscal year 2012, however early adoption is permitted. The Company does not expect this new standard to significantly impact its consolidated financial statements.

2. Net Income (Loss) per Share

Prior to the Company s IPO, net income (loss) per share was computed as required by provisions within the accounting standard for earnings per share, which established guidance regarding the computation of earnings per share, or EPS, by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the Company. The accounting standard for earnings per share requires earnings for the period, after deduction of preferred stock dividends, to be allocated between the common and preferred stockholders based on their respective rights to receive dividends, whether or not declared. Basic net income (loss) per share is then calculated by dividing income (loss) attributable to common stockholders (after the reduction for any preferred stock dividends assuming current income for the period had been distributed) by the weighted-average number of shares of common stock outstanding for the period, net of shares subject to repurchase by the Company. The accounting standard for earnings per share does not require the presentation of basic and diluted net income (loss) per share for securities other than common stock; therefore, the following net income (loss) per share amounts only pertain to the Company s common stock. The Company calculated diluted net income (loss) per share under the as-if-converted method unless the conversion of the preferred stock was anti-dilutive to basic net income (loss) per share. To the extent preferred stock was anti-dilutive, the Company calculated diluted net income (loss) per share under the two-class method.

Subsequent to the Company s IPO, net income (loss) per share continued to be computed as required by provisions within the accounting standard for earnings per share. Basic EPS is calculated by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income (loss) attributable to common stockholders 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 are considered to be common stock equivalents and are only included in the calculation of diluted EPS when their effect is dilutive.

Subsequent to its IPO, 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) attributable to common stockholders 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) attributable to common stockholders 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.

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	Years Ended December 31,		
	2011	2010	2009
Historical			
Numerator:			
Net income (loss)	$ (22,024)	$ 10,114	$ 4,329
Net income allocable to preferred stockholders		(1,215)	(3,691)
Net income (loss) attributable to common stockholders	$ (22,024)	$ 8,899	$ 638
Denominator:			
Weighted average common shares outstanding basic	32,573	26,743	10,129
Common equivalent shares from options to purchase common stock		2,735	1,383
Weighted average common shares outstanding diluted	32,573	29,478	11,512
Net income (loss) per share attributable to common stockholders:			
Basic	$ (0.68)	$ 0.33	$ 0.06
Diluted	$ (0.68)	$ 0.30	$ 0.06

The following table presents a summary of the Company s weighted average, common equivalent shares of potentially dilutive securities not included in the calculation of diluted net income per share due to its anti-dilutive nature:

	Years Ended December 31,		
	2011	2010	2009
Preferred stock			14,526
Common stock options	4,151	1,341	1,639
Restricted stock units	972		
	5,123	1,341	16,165

3. Financial Instruments

The composition of financial instruments is as follows:

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$ 14,372	$	$	$ 14,372
Government debt securities	15,966	3		15,969
Corporate debt securities	41,764	7	(30)	41,741

	72,102	10	(30)	72,082
Less amounts included in cash and cash equivalents	(14,372)			(14,372)
	$ 57,730	$ 10	$ (30)	$ 57,710

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MAXLINEAR, INC.

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	December 31, 2010			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Money market funds	$ 208	$	$	$ 208
Government debt securities	37,068	12	(3)	37,077
Corporate debt securities	39,316	38	(5)	39,349
	76,592	50	(8)	76,634
Less amounts included in cash and cash equivalents	(3,712)		1	(3,711)
	$ 72,880	$ 50	$ (7)	$ 72,923

As of December 31, 2011, the Company held 14 corporate debt securities with an aggregate fair value of $28,936 that were in an unrealized loss position for less than 12 months. The gross unrealized losses of $30 represent a temporary impairment on the corporate debt securities related to multiple issuers, and were primarily caused by fluctuations in U.S. interest rates. The Company has determined that the gross unrealized losses on these securities at December 31, 2011 are temporary in nature. 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, and our intent and ability to hold the security in order to allow for an anticipated recovery in fair value.

All of the Company s long-term available-for-sale securities were due between one and two years as of December 31, 2011.

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. This is because the Company values financial instruments using quoted market prices or alternate pricing sources and models utilizing market observable inputs. The Company held no Level 3 financial instruments as of December 31, 2011 and 2010.

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

	Balance at December 31, 2011	Fair Value Measurements at December 31, 2011 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 14,372	$ 14,372	$	$
Government debt securities	15,969		15,969	
Corporate debt securities	41,741		41,741	
	$ 72,082	$ 14,372	$ 57,710	$

	Balance at December 31, 2010	Fair Value Measurements at December 31, 2010 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 208	$ 208	$	$
Government debt securities	37,077		37,077	
Corporate debt securities	39,349		39,349	
	$ 76,634	$ 208	$ 76,426	$

There were no transfers between Level 1, Level 2 or Level 3 securities in the year ended December 31, 2011.

4. Balance Sheet Details

Inventory consists of the following:

	December 31, 2011	2010
Work-in-process	$ 3,641	$ 5,691
Finished goods	4,441	1,734
	$ 8,082	$ 7,425

Property and equipment consist of the following:

	Useful Life (in Years)	December 31, 2011	2010
Furniture and fixtures	5	$ 305	$ 275
Machinery and equipment	3 -5	6,875	4,762
Masks and production equipment	2	3,249	2,486
Software	3	558	543
Leasehold improvements	4 -5	489	151
Construction in progress	N/A	6	144
		11,482	8,361
Less accumulated depreciation and amortization		(5,988)	(3,826)
		$ 5,494	$ 4,535

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The net book value of property and equipment acquired under capital leases totaled $21 and $94 at December 31, 2011 and 2010, respectively.

Intangible assets consist of the following:

	Weighted Average Amortization Period (in Years)	December 31, 2011	December 31, 2010
Licensed technology	3	$ 1,865	$ 1,275
Less accumulated amortization		(844)	(295)
		$ 1,021	$ 980

The following table presents future amortization of the Company s intangible assets at December 31, 2011:

	Amortization
2012	$ 746
2013	275
Total	$ 1,021

Deferred revenue and deferred profit consist of the following:

	December 31, 2011	December 31, 2010
Deferred revenue rebates	$ 190	$ 492
Deferred revenue distributor transactions	5,606	6,535
Deferred cost of net revenue distributor transactions	(1,767)	(1,705)
	$ 4,029	$ 5,322

Accrued expenses consist of the following:

	December 31, 2011	December 31, 2010
Accrued software license payments	$ 214	$ 362
Accrued technology license payments	2,794	25

Accrued professional fees	203	236
Accrued price protection liability	2,856	456
Estimated export compliance fines and penalties	750	
Other	586	479
	$ 7,403	$ 1,558

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Other long-term liabilities consist of the following:

	December 31, 2011	December 31, 2010
Accrued technology license payments	$ 371	$
Deferred rent	248	257
Other	236	
	$ 855	$ 257

5. Commitments and Contingencies

The Company has capital leases for certain equipment with lease terms ranging from 36 to 60 months at interest rates ranging from 12% to 18%.

During May 2009, the Company entered into two lease agreements for office facilities to replace the office facilities being leased at December 31, 2008. In connection with vacating the facilities, the Company wrote off the carrying value of leasehold improvements at June 30, 2009 totaling $32. The Company did not incur any additional expenses as a result of terminating the leases. One lease commenced on June 1, 2009 and expires on January 22, 2014. The second lease commenced on September 1, 2009 and expires on August 31, 2014. The lease which expires on August 31, 2014 has an option to extend the lease beyond the initial term for three years. The terms of these leases provide for rental payments on a monthly basis with periodic rent escalations over the term of the lease. During January 2010, the Company entered into a five-year noncancelable operating lease agreement for a research and development facility in Irvine, CA. The lease is subject to rent holidays and rent increases and commenced in April 2010 with an option to extend the lease for an additional five years. During February and August 2011, the Company entered into amendments to its existing operating lease agreement for a research and development facility in Irvine, CA. The amended operating lease calls for an expansion in the amount of space occupied and an extension to April 2016. The Company recognizes rent expense on a straight-line basis over the lease period and has accrued for rent expense incurred but not paid. In addition, incentives were granted, including discounted rental payments and inducements. As such, these allowances have been recorded as deferred rent and these items are being recognized as reductions to rental expense on a straight-line basis over the term of the lease.

At December 31, 2011, future minimum annual payments under the equipment and the non-cancelable operating leases and other obligations are as follows:

	Capital Leases	Operating Leases	Other Obligations
2012	$ 33	$ 1,015	$ 3,689
2013	3	979	2,028
2014		638	129
2015		299	
2016		113	
Total minimum lease payments	36	$ 3,044	$ 5,846
Less amounts representing interest	(2)		

Net present value of capital lease obligations		34
Less current portion of capital lease obligations		(32)
Capital lease obligations, net of current portion	$	2

Total rent expense for 2011, 2010 and 2009, was $983, $652 and $614, respectively.

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Two of the Company s executive officers have personally guaranteed the Company s performance under certain capital leases with remaining payments totaling $16 at December 31, 2011.

Other obligations represent purchase commitments for software licensing arrangements, information systems infrastructure and other commitments made in the ordinary course of business.

The Company had firm purchase order commitments for the acquisition of inventory as of December 31, 2011 and 2010 of $2,767 and $1,367, respectively.

From time to time, the Company may be involved in litigation relating to claims arising out of its operations. The Company is not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on its business, financial condition or operating results.

6. Stock-Based Compensation and Employee Benefit Plans

Common Stock

At December 31, 2011, the Company had 500 million authorized shares of Class A common stock and 500 million authorized shares of Class B common stock. Holders of the Company s Class A and Class B common stock have identical voting rights, except that holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to ten votes per share with respect to transactions that would result in a change of control of the Company or that relate to the Company s equity incentive plans. In addition, holders of Class B common stock have the exclusive right to elect two member of the Company s Board of Directors, each referred to as a Class B Director. The shares of Class B common stock are not publicly traded. Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock and in most instances automatically converts upon sale or other transfer.

Employee Benefit Plans

At December 31, 2011, the Company had stock-based compensation awards outstanding under the following plans: the 2004 Stock Plan, the 2010 Equity Incentive Plan and the 2010 Employee Stock Purchase Plan. Upon the closing of the initial public offering in March 2010, all stock awards are issued under the 2010 Equity Incentive Plan and are no longer issued under the 2004 Stock Plan.

2010 Equity Incentive Plan

The 2010 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance-based stock awards, and other forms of equity compensation, or collectively, stock awards. The aggregate number of shares of Class A common stock that may be issued pursuant to stock awards under the 2010 Plan will increase by any shares subject to stock options or other awards granted under the 2004 Stock Plan that expire or otherwise terminate without having been exercised in full and shares issued pursuant to awards granted under the 2004 Stock Plan that are forfeited to or repurchased by the Company. In addition, the number of shares of common stock reserved for issuance will automatically increase on the first day of each fiscal year, equal to the lesser of: 2,583,311 shares of the Company s Class A common stock; four percent (4%) of the outstanding shares of the Company s Class A common stock and Class B common stock on the last day of the immediately preceding fiscal year; or such lesser amount as the Company s board of directors may determine. The exercise price for an incentive or a nonstatutory stock option cannot be less than 100% of the fair market value of the Company s Class A common stock on the date of grant. Options granted will generally vest over a four-year period and the term can be from seven to ten years.

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2010 Employee Stock Purchase Plan

The ESPP authorizes the issuance of shares of the Company s Class A common stock pursuant to purchase rights granted to the Company s employees. The number of shares of the Company s common stock reserved for issuance will automatically increase on the first day of each fiscal year, equal to the least of: 968,741 shares of the Company s Class A common stock; one and a quarter percent (1.25%) of the outstanding shares of the Company s Class A common stock and Class B common stock on the first day of the fiscal year; or such lesser amount as may be determined by our board of directors or a committee appointed by our board of directors to administer the ESPP. The ESPP is implemented through a series of offerings of purchase rights to eligible employees. Under the ESPP, the Company may specify offerings with a duration of not more than 27 months, and may specify shorter purchase periods within each offering. Each offering will have one or more purchase dates on which shares of the Company s common stock will be purchased for employees participating in the offering. An offering may be terminated under certain circumstances. Generally, all regular employees, including executive officers, employed by the Company may participate in the ESPP and may contribute up to 10% of their earnings, subject to certain limitations, for the purchase of the Company s common stock under the ESPP. Beginning with the offering period commencing in May 2011, employees may contribute up to 15% of their earnings for the purchase of the Company s common stock under the ESPP. Unless otherwise determined by the Company s board of directors, Class A common stock will be purchased for accounts of employees participating in the ESPP at a price per share equal to the lower of (a) 85% of the fair market value of a share of the Company s Class A common stock on the first date of an offering or (b) 85% of the fair market value of a share of the Company s Class A common stock on the date of purchase.

Stock-Based Compensation

The Company recognized stock-based compensation in the statements of operations as follows:

	Years Ended December 31,		
	2011	**2010**	**2009**
Cost of net revenue	$ 54	$ 80	$
Research and development	4,434	2,589	583
Selling, general and administrative	2,880	1,546	376
	$ 7,368	$ 4,215	$ 959

The total unrecognized compensation cost related to unvested stock options as of December 31, 2011 was $8.6 million, and the weighted average period over which these equity awards are expected to vest is 2.57 years. The total unrecognized compensation cost related to unvested restricted stock units as of December 31, 2011 was $12.0 million, and the weighted average period over which these equity awards are expected to vest is 3.44 years.

The Company records equity instruments issued to non-employees as expense at their fair value over the related service period as determined in accordance with the authoritative guidance and periodically revalues the equity instruments as they vest. Stock-based compensation expense related to non-employee consultants totaled $174, $208 and $35 for 2011, 2010 and 2009, respectively.

Stock Options

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options and employee stock purchase rights granted to employees. Stock-based compensation expense is recognized over the vesting period using the straight-line method and is classified in the consolidated statements of operations based on the department to which the related employee reports.

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The fair values of stock options and employee stock purchase rights were estimated at their respective grant date using the following assumptions:

Stock Options

	Years Ended December 31, 2011	2010	2009
Weighted-average grant date fair value per share	$ 4.15	$ 6.89	$ 3.36
Risk-free interest rate	1.95%	2.51%	2.68%
Dividend yield			
Expected life (years)	5.02	6.06	6.18
Volatility	52.00%	55.00%	56.00%

Employee Stock Purchase Rights

	Years Ended December 31, 2011	2010	2009
Weighted-average grant date fair value per share	$ 1.89 $2.46	$ 3.18 $8.38	
Risk-free interest rate	0.05 0.07%	0.14 1.14%	
Dividend yield			
Expected life (years)	0.5	0.5 2.10	
Volatility	45.70 72.84%	30.43 60.03%	

The risk-free interest rate assumption was based on the United States Treasury s rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The assumed dividend yield was based on the Company s expectation of not paying dividends in the foreseeable future. The weighted-average expected life of options was calculated using the simplified method as prescribed by guidance provided by the Securities and Exchange Commission. This decision was based on the lack of relevant historical data due to the Company s limited historical experience. In addition, due to the Company s limited historical data, the estimated volatility incorporates the historical volatility of comparable companies whose share prices are publicly available.

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

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	4,732	$ 5.03		
Granted	1,503	8.88		
Exercised	(980)	1.56		
Canceled	(589)	7.16		

Outstanding at December 31, 2011	4,666	$	6.73	7.0	$	4,444
Vested and expected to vest at December 31, 2011	4,499	$	6.66	7.0	$	4,437
Exercisable at December 31, 2011	2,108	$	4.47	6.4	$	4,141

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The exercise price for all stock options granted prior to the Company s initial public offering is at or above the estimated fair value of the underlying common stock as determined contemporaneously on the date of grant by the Company s Board of Directors with assistance from valuation information provided the Company s management. Given the absence of an active market for the Company s common stock, the Company s Board of Directors was required to estimate the fair value of the Company s common stock at the time of each grant. The Company s Board of Directors, which includes members who are experienced in valuing the securities of early-stage technology companies, considered objective and subjective factors in determining the estimated fair value of the Company s common stock on each option grant date.

The intrinsic value of stock options exercised during 2011, 2010 and 2009 was $6,674, $5,226 and $3,723, respectively.

The fair value of options which vested during 2011, 2010 and 2009 was $3,727, $2,096 and $656, respectively.

Restricted Stock Units

The Company calculates the fair value of restricted stock units based on the fair market value of our Class A common stock on the grant date. Stock-based compensation expense is recognized over the vesting period using the straight-line method and is classified in the consolidated statements of income based on the department to which the related employee reports.

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

	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Outstanding at December 31, 2010		$
Granted	2,174	7.99
Vested	(133)	8.55
Canceled	(221)	8.63
Outstanding at December 31, 2011	1,820	$ 7.87

The fair value of restricted stock units which vested during 2011 was $1,139. No restricted stock units vested during 2010 and 2009, respectively.

Shares Reserved for Future Issuance

Common stock reserved for future issuance is as follows:

	December 31, 2011
Stock options outstanding	4,666
Restricted stock units outstanding	1,820

Authorized for future grants under 2010 Equity Incentive Plan	7,319
Authorized for future issuance under 2010 Employee Stock Purchase Plan	719
Total	14,524

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7. Income Taxes

Income tax provision (benefit) consists of the following:

	Years Ended December 31,		
	2011	2010	2009
Current:			
Federal	$ 236	$ 126	$ 110
State	20	163	120
Foreign	69	22	
Total current	325	311	230
Deferred:			
Federal	(5,183)	1,336	1,312
State	(1,731)	(104)	479
Foreign	685	(685)	
Change in valuation allowance	12,897	(7,229)	(1,791)
Total deferred	6,668	(6,682)	
Total income tax provision (benefit)	$ 6,993	$ (6,371)	$ 230

The actual income tax provision (benefit) differs from the amount computed using the federal statutory rate as follows:

	Years Ended December 31,		
	2011	2010	2009
Provision at statutory rate	$ (5,111)	$ 1,273	$ 1,550
State income taxes (net of federal benefit)	24	336	162
Research and development credits	(3,320)	(1,078)	(890)
Foreign rate differential	1,182	262	292
Stock compensation	974	959	282
Foreign dividend	94	46	
Tax attribute reduction			572
Estimated export compliance fines and penalties	255		
Foreign tax credit	(236)		
Permanent and other	260	(940)	53
Valuation allowance	12,871	(7,229)	(1,791)
Total provision (benefit) for income taxes	$ 6,993	$ (6,371)	$ 230

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The components of the deferred income tax assets are as follows:

	December 31, 2011	December 31, 2010
Deferred tax assets:		
Net operating loss carryforwards	$ 6,155	$ 3,042
Research and development credits	8,077	4,518
Accrued expenses and other	644	2,641
Stock-based compensation	1,685	534
	16,561	10,735
Less valuation allowance	(16,029)	(3,132)
	532	7,603
Deferred tax liability:		
Depreciation and amortization	(532)	(935)
Net deferred tax assets	$	$ 6,668

At December 31, 2011, the Company had federal and state tax net operating loss carryforwards of approximately $21,791 and $14,317, respectively. These amounts include share-based compensation for federal and state of $6,919 and $1,891, that will be recorded to contributed capital when realized. The federal and state tax loss carryforwards will begin to expire in 2026 and 2018, respectively, unless previously utilized.

At December 31, 2011, the Company had federal and state tax credit carryforwards of approximately $5,208 and $5,163, respectively. The federal tax credit carryforward will begin to expire in 2024, unless previously utilized. The state tax credits do not expire. In addition, the Company has federal alternative minimum tax credit carryforwards of $227 that can be carried forward indefinitely.

The Company has not provided for U.S. income and foreign withholding taxes on undistributed earnings from non-U.S. subsidiaries as these earnings are indefinitely invested outside the U.S. It is not practicable for the Company to determine the total amount of unrecognized deferred U.S. income tax liability.

Pursuant to Internal Revenue Code Section 382 and 383, use of the Company s net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within a three-year period. The Company has had two changes of ownership in April and November of 2004 resulting in an annual net operating loss and credit limitation. The annual limitations will not cause a loss of net operating loss or credit carryforwards. Additional limitations on the use of these tax attributes could occur in the event of possible disputes arising in examinations from various taxing authorities. Currently, the Company s 2008 and 2009 tax returns are under examination by the California Franchise Tax Board.

The Company evaluated its net deferred income taxes, which included an assessment of the cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance is required. After considering its recent history of losses and management s expectations of additional near-term losses, the Company recorded a valuation allowance on its net federal deferred tax assets, with a corresponding charge to its income tax provision of approximately $6.7 million during 2011. In addition, the Company continues to maintain a valuation allowance to offset the California deferred tax assets as realization of such assets does not meet the more-likely-than-not threshold required under accounting guidelines. The Company will continue to assess the need for a valuation allowance on the deferred tax assets by evaluating positive and negative evidence that may exist.

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At December 31, 2011, the Company s unrecognized tax benefits totaled $3,020, $2,308 ,of which, if recognized at a time when the valuation allowance no longer exists, would affect the effective tax rate. The Company will recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. At December 31, 2011, the Company had no accrual for interest and penalties. The Company does not expect any significant increases or decreases to its unrecognized tax benefits within twelve months.

The following table summarizes the changes to the unrecognized tax benefits during 2011, 2010 and 2009:

Balance as of December 31, 2008	$ 582
Additions based on tax positions related to the current year	290
Additions based on tax positions of prior year	
Balance as of December 31, 2009	872
Additions based on tax positions related to the current year	287
Additions based on tax positions of prior year	25
Balance as of December 31, 2010	1,184
Additions based on tax positions related to the current year	1,018
Additions based on tax positions of prior year	818
Balance as of December 31, 2011	$ 3,020

The Company is subject to federal and California income tax in the United States and is also subject to income tax in certain other foreign tax jurisdictions. At December 31, 2011, the Company is no longer subject to federal, California or Chinese income tax examinations for the years before 2008, 2007 and 2008, respectively. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses or tax credits were generated and carried forward, and make adjustments up to the amount of the net operating loss or credit carryforward amount.

8. Employee Retirement Plan

The Company has a 401(k) defined contribution retirement plan (the 401(k) Plan) covering all eligible employees. Participants may voluntarily contribute on a pre-tax basis an amount not to exceed a maximum contribution amount pursuant to Section 401(k) of the Internal Revenue Code. The Company is not required to contribute, nor has it contributed, to the 401(k) Plan for any of the periods presented.

9. Related-Party Transactions

Transactions with an affiliate of one of the Company s stockholders identified as related-party transactions in the prior year were not deemed to be related-party transactions for the year ended December 31, 2011 as the stockholder is no longer a beneficial owner of the Company. For 2010 and 2009, the Company recorded charges of $15,776 and $10,541, respectively, related to wafer inventory purchased from and research and development expenses incurred with an affiliate of one of the Company s stockholders. Accounts payable to this stockholder at December 31, 2010 were $1,746.

10. Selected Quarterly Financial Data (Unaudited)

The following table presents the Company s unaudited quarterly financial data for each of the eight quarters in the period ended December 31, 2011. In management s opinion, this information has been presented on the same basis as the audited consolidated financial statements included in a separate section of this report, and all

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necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and related notes. The operating results for any quarter should not be relied upon as necessarily indicative of results for any future period.

	Year Ended December 31, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands)			
Net revenue	$ 16,908	$ 18,094	$ 17,639	$ 19,296
Gross profit	10,831	11,435	11,332	11,723
Net loss	(1,148)	(4,796)	(11,388)	(4,692)
Net loss attributable to common stockholders	(1,148)	(4,796)	(11,388)	(4,692)
Net loss per share attributable to common stockholders:				
Basic	$ (0.04)	$ (0.15)	$ (0.35)	$ (0.14)
Diluted	$ (0.04)	$ (0.15)	$ (0.35)	$ (0.14)

	Year Ended December 31, 2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands)			
Net revenue	$ 16,137	$ 18,176	$ 18,523	$ 15,865
Gross profit	10,979	12,705	13,036	10,421
Net income	1,334	1,766	1,352	5,662
Net income attributable to common stockholders	119	1,766	1,352	5,662
Net income per share attributable to common stockholders:				
Basic	$ 0.01	$ 0.06	$ 0.04	$ 0.18
Diluted	$ 0.01	$ 0.05	$ 0.04	$ 0.17

11. Subsequent Events

In the first quarter of 2012, the Company became aware that it may have taken actions that could constitute facilitation (within the meaning of applicable sanctions and export control laws) of shipments of foreign produced products to Iran or taken other actions that may be in violation of U.S. export control and economic sanctions laws. The potential violations related to the sale of certain of the Company s tuner products to set-top box manufacturers in Asia to permit conversion of digital television signals to analog signals in international markets using the DVB-T broadcast standard. The DVB-T standard is used in most of Europe, Asia (excluding China), Australia, and Africa as well as in parts of the Middle East, including Iran. While the underlying shipment of the Company s tuners into Iran by foreign manufacturers of these set-top boxes may have been lawful, the Company s potential facilitation may have resulted in violation of applicable sanctions and export control laws without the proper U.S. Government authorization. Upon learning of these potential violations, which were discovered internally, the Company s audit committee retained outside counsel to conduct a review of the Company s sanctions and export control compliance. On February 7, 2012, the Company made voluntary initial filings with the Office of Foreign Assets Control of the United States Department of the Treasury (OFAC) and with the Bureau of Industry and Security of the United States Department of Commerce (BIS), notifying these regulatory agencies that the Company was conducting a review of export control matters and that it would submit any supplemental voluntary self disclosures once the internal review was complete. The initial stage of the review was concluded in March 2012. Outside counsel is now preparing the final voluntary disclosures to be

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submitted to OFAC and BIS. Based upon the facts known to the Company to date, the Company recorded an expense of $0.8 million, reflected in selling, general, and administrative expense, in the fourth quarter of 2011 for this export compliance matter, representing management s estimated exposure for civil penalties and fines in accordance with applicable accounting literature.

As the Company has voluntarily self-disclosed, OFAC or BIS could conduct their own investigation. Should additional facts be discovered in the future and/or should actual fines or other penalties differ from the Company s estimates, its business, operating results, and financial condition could be materially and negatively affected. In that regard, the Company cannot guarantee that either OFAC or BIS will agree with its assessments of the quantity and nature of the potential violations. As a result, OFAC or BIS could seek to impose higher fines and penalties than those that the Company has estimated to date. The maximum civil monetary penalty for each violation is up to $250,000 or twice the value of the transaction, whichever is greater.