

LABRANCHE & CO INC  
Form 10-K  
March 16, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number: 001-15251

**LaBRANCHE & CO INC.**

(Exact Name of Registrant as Specified in Its Charter)

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

**13-4064735**  
(I.R.S. Employer  
Identification No.)

**One Exchange Plaza, New York, New York 10006**

(Address of Principal Executive Offices) (Zip Code)

**(212) 425-1144**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

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**Title of each Class:**

**Name of each exchange on which registered:**

**Common Stock, par value \$0.01**

**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based upon the last sale price of the Common Stock reported on the New York Stock Exchange on June 30, 2005, was approximately \$377,715,000.

The number of shares of Common Stock outstanding as of March 10, 2006 was 60,714,487.

**DOCUMENTS INCORPORATED BY REFERENCE**

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Portions of the registrant's definitive Proxy Statement for the registrant's 2006 Annual Meeting of Stockholders to be held on May 16, 2006 are incorporated by reference in this Annual Report on Form 10-K in response to Part II, item 5 and Part III, items 10, 11, 12, 13 and 14.

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**PART I**

*This Annual Report on Form 10-K and the documents incorporated by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates and projections about the registrant's industry, management's beliefs and certain assumptions made by management. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Unless required by law, the registrant undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. However, readers should carefully review the risk factors set forth herein and in other reports or documents the registrant files from time to time with the Securities and Exchange Commission (the SEC).*

**Item 1.**

**BUSINESS.**



**Overview**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K

We are the parent corporation of LaBranche & Co. LLC, one of the oldest and largest Specialists in equity securities listed on the New York and American Stock Exchanges. We are also the parent of LaBranche Structured Holdings, Inc. ( LSHI ), the holding company for a group of entities that are Specialists and Market-Makers in options, futures and exchange-traded funds, or ETFs, traded on various exchanges. As a Specialist and Market-Maker, we play an integral role in the central auction market by acting as the exclusive broker (i.e., agent) or market-maker (i.e., principal) in our portfolio of listed company stocks, options, futures and ETFs. The Specialist facilitates buying and selling of securities of the companies it represents by bringing timely information, critical expertise, and needed liquidity to the forefront of the auction marketplace. LaBranche Financial Services, Inc. ( LFSI ), another of our operating subsidiaries, provides securities execution, clearing and direct-access floor brokerage services to institutional investors.

LSHI is the sole member of LaBranche Structured Products, LLC, a New York limited liability company ( LSP ), LaBranche Structured Products Specialists LLC, a New York limited liability company ( LSPS ), LaBranche Structured Products Europe Limited, a United Kingdom single member private company ( LSPE ), and LaBranche Structured Products Hong Kong Limited, a Hong Kong single member private company ( LSPH ). LSP is a registered broker-dealer that operates as a specialist in options, ETFs and futures on the AMEX, the New York Board of Trade ( NYBOT ), and the Philadelphia Stock Exchange ( PHLX ), and as a market-maker in options, ETFs and futures on several exchanges. LSPS is a registered broker-dealer and operates as a specialist in ETFs traded on the NYSE. LSPE was organized to operate as a market-maker for ETFs in Europe traded on the London Stock Exchange and the Euroex and Euronext Exchanges, and was registered as a broker-dealer with the United Kingdom's Financial Securities Authority in March 2006. LSPH was organized to operate as a market-maker for ETFs and



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engage in hedging transactions in Asia, and is in the process of registering as a broker-dealer with Hong Kong's Securities and Futures Commission.

We are also the sole stockholder of LABDR Services, Inc. ( LABDR ) and the sole owner of LaBranche & Co. B.V. ( BV ). LABDR provides disaster recovery services and back-up facilities to other LaBranche subsidiaries. BV represents LaBranche & Co. LLC in European markets and provides client services to LaBranche & Co. LLC's European listed companies.

We are a Delaware corporation that was incorporated in June 1999. Our principal executive offices are located at One Exchange Plaza, 25th Floor, New York, New York 10006, and our telephone number is (212) 425-1144. Our Internet address is [www.labranche.com](http://www.labranche.com). We make available free of charge, on or through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ( SEC ). These filings also are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

Also available on our website are our Corporate Governance Guidelines, our Code of Conduct (applicable to all our directors, officers and employees) and the charters for our Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee. Within the time period required by the SEC and the NYSE, if applicable, we will post any amendment and/or any waiver of our Code of Conduct.

We currently view our business as operating principally in two separate segments: the Specialist and Market-Making segment and the Execution and Clearing segment.

Our Specialist and Market-Making segment currently includes the operations of LaBranche & Co. LLC, LSP, LSPS, LABDR and BV. As of December 31, 2005, the entities within our Specialist and Market-Making segment were specialists on the NYSE, the AMEX, the NYBOT, and PHLX, as well as market-makers on several exchanges. Collectively, our Specialist and Market-Making segment is the specialist for 563 common stock listings and 19 ETFs on the NYSE and 91 common stock listings, 640 options listings, 5 futures and 30 ETFs on the AMEX, PHLX, NYBOT and other exchanges, and is a market-maker for ETFs, options and futures on various exchanges.

Our Execution and Clearing segment currently includes the operations of LFSI, which provides securities execution and clearing services to retail and institutional clients and correspondents. LFSI's central focus is to bring the customer closer to the point of sale and provide price discovery at the highest possible speed and lowest possible cost.

Compensation and related benefits for certain employees and certain company-wide professional fees are allocated to our two principal business segments. However, certain revenues and administrative and corporate overhead expenses, which consist primarily of interest on our public debt, are not specifically allocated to our two principal business segments and thus are

treated as other revenues and expenses. A description of our principal business segments is presented below.

## **Our Specialist and Market-Making Segment**

### *The Specialist and Market-Making Industry*

Generally, trading of securities on the NYSE, the AMEX and other auction-based securities markets is conducted through an auction process managed by the specialist for that security. The specialist is a broker-dealer who applies for and, if accepted, is assigned the role to maintain a fair and orderly market in its specialist securities. The number of specialist units on the NYSE and the AMEX has decreased substantially over the past several years due to consolidation within the industry. There are currently seven NYSE specialist firms, of which the five largest, as ranked by number of specialist stocks, were responsible for 95.2% and 95.1% of the average daily share volume traded on the NYSE in 2005 and 2004, respectively. There are currently 14 equity specialist firms, 16 option specialists and 11 ETF specialists on the AMEX. Many other firms act as market-makers in these securities on the AMEX, adding liquidity to the market in addition to the exclusive specialists' obligation to do so. There are also many other market-makers on the other exchanges on which we make markets.

On the NYSE, specialist firms for cash equity securities compete for the original listing of these securities through an allocation process organized by the NYSE. As part of this allocation process, companies seeking a listing may select a specialist firm in one of two ways. Under the first method, the NYSE's allocation committee selects the specialist firm based on specific criteria. Under the second method, available since March 1997, the listing company requests that the allocation committee select three to five potential specialist firms suitable for the security, based on criteria specified by the listing company. The issuer then meets with each specialist firm presented by the allocation committee. Within one week after meeting the competing specialist firms, the listing company selects a specialist firm. Currently, almost every company listing on the NYSE chooses its specialist firm under the second allocation method.

On the AMEX, the specialist firm for each equity security, option and future compete for the original listing of that security through an allocation process organized by the AMEX. The AMEX has an allocation committee, which selects the specialist firm for each security based on specified criteria, giving weight to the desires of the listed company. On both the NYSE and AMEX, the specialist for each ETF is chosen by either the exchange or the ETF issuer.

When assigned a particular security, the specialist firm agrees to specific obligations. The specialist is required to maintain, as far as practicable, a fair and orderly market. This implies that the trading will have reasonable depth and price continuity, so that, under normal circumstances, a customer may buy or sell the security in a manner consistent with market conditions. A specialist firm helps market participants achieve price improvement in their trades because the best bids and offers are discovered through the auction process. In performing its obligations, the specialist firm is exposed to all transactions that occur in each of its specialist securities, either through electronic orders or floor brokers. In any given transaction, the specialist firm may act as:

an auctioneer by setting opening prices for its specialist securities and by matching the highest bids with the lowest offers, permitting buyers and sellers to trade directly;

a facilitator bringing together buyers and sellers who do not know of each other in order to execute a trade which would not otherwise occur;

an agent for broker-dealers who wish to execute transactions as instructed by their customers (typically, these orders are limit orders entrusted to the specialist at prices above or below the current market price); or

a principal using its own capital to buy or sell securities for its own account.

In addition to normal specialist functions, a specialist in ETFs may provide seed money to the ETF, creating shares in such ETF by purchasing and depositing a group of securities and/or cash into the fund

The specialist firm's decision to buy or sell its specialist securities as principal may be based on obligation or inclination. For example, the specialist firm may be obligated to buy or sell its specialist securities to counter short-term imbalances in the prevailing market, thus helping to maintain a fair and orderly market in that stock. At other times, the specialist firm may be inclined to buy or sell the securities as principal based on market conditions. In actively-traded securities, the specialist firm continually buys and sells its specialist securities at varying prices throughout each trading day. The specialist firm's goal and expectation is to profit from differences between the prices at which it buys and sells these securities. In fulfilling its specialist obligations, however, the specialist firm may, at times, be obligated to trade against the market, or may be prevented from participating in a trade, which could adversely impact its profitability. In addition, the specialist firm's trading practices are subject to a number of restrictions, as described in Rules Governing Our Specialist and Market-Making Activities.

#### *Recent Trends in Trading*



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Specialist and market-making firms generate revenues by executing trades, either as agent or principal, in their specialist and market-making securities. Specialist firms' revenues generally are significantly impacted by the share volume of trading on the applicable market. Market activity historically has tended to be cyclical, and trading volumes from 2002 through 2004 evidenced a decline in individual and institutional trading.

Since 2000, ETFs have grown as an alternative to other investments. ETFs are share-based investment funds that pool investors' capital and trade on stock exchanges throughout the day at prices determined by the market. ETFs attempt to imitate a stock market index or narrowly defined basket, rather than actively add or remove stocks. As a result, these ETFs offer investors the diversification advantages of a mutual fund, while also possessing certain tax and other advantages of traditional stocks. According to data provided by the Investment Company Institute, ETF assets grew to approximately \$296.0 billion as of December 31, 2005 from \$226.2 billion as of December 31, 2004, representing a growth rate of approximately 31%. Some of the more recognizable ETFs are the Nasdaq 100 Tracking Stock (QQQ), Standard & Poors Depository

Receipts (SPDRs) and Vanguard Index Participation Receipts (VIPERS). We believe the increase in program trading during this period is at least partially related to the growth in ETFs because hedging trades executed by market makers tend to be done electronically and in small increments.

In 2005, trading volumes in cash equity securities grew, as well. Average daily trading volume on the NYSE increased in 2005 to 1.6 billion shares from approximately 1.4 billion shares in each of 2004 and 2003. This increase in trading volume, in part, helped to stabilize our cash equity specialist revenues in 2005. This stabilization follows a period of declining trading volume from 2002 through 2004, which may have been attributable to:

a relatively slow return by the retail investor to the equity markets following the 2000-2002 bear market;

popular interest in alternative investments, particularly residential real estate and commodities; and

the continued emergence of a new class of investors, including hedge funds, that invests in non-traditional instruments.

In addition to the historically lower trading volume on the NYSE, we believe several other factors negatively impacted equity specialists revenues from 2002 through 2004, including:

declining volatility of stock prices as measured by the CBOE's Volatility Index®, a key measure of market expectation of near-term volatility and investor sentiment. As volatility in markets diminishes, the need for specialists to employ capital to mitigate volatility decreases, which in turn reduces specialists' level of principal participation; and

increased program trading as a percentage of total NYSE average daily share volume. Program trading and the decimalization of stock prices often results in a number of smaller orders executed through the NYSE's SuperDOT® system. As a result, block-trading strategies have become less prevalent.

Although these factors continued to adversely affect our cash equity specialists' results in 2005, our revenues from our cash equities specialist business stabilized in 2005.

The recent changes in investor behavior from concentration on individual stocks to alternatives such as sector and index trading, as well as ETFs, also has substantially fueled the growth for trading in options, futures and ETFs. Accordingly, over the past few years we have increased our focus on our options, futures and ETFs specialist and market making-operations.

The majority of trades in NYSE-listed stocks take place on the NYSE. In 2005, specialist firms handled approximately 76% of trades in NYSE-listed stocks, a decline from approximately 79% in 2004. The percentage of trades in NYSE-listed stocks on the floor of the NYSE is affected as follows:

some stocks are listed on multiple exchanges, such as regional exchanges, and trades take place on those exchanges as well as in the over-the-counter market and through alternative trading systems ( ATs ); and

at times, significant volume in NYSE-listed stocks takes place before and after regular NYSE trading hours.

Technological advances have contributed to increased trading through ATs, such as electronic communications networks, or ECNs, and electronic crossing systems. While the first ECN was created in 1969, most of the ECNs currently in operation were started only during the past several years. These systems electronically facilitate the matching of buy and sell orders that are entered by their network members. If a match does not occur, some ATs will forward unfilled orders to other ATs or to exchanges such as the NYSE. Some of these networks also allow limited negotiation between members to facilitate a match. These ATs generally limit trades over their systems to their members, who are typically large financial institutions, professional traders or brokerage firms. Additionally, some ATs are being developed to facilitate trading by retail investors. In April 1999, the SEC ruled that these networks are allowed, and in specified cases are required, to register and become subject to regulation as stock exchanges. It is possible that the presence of these ATs and other emerging electronic trading systems have contributed to the overall decline in the percentage of equity shares traded on the NYSE over the past five years from approximately 83% to approximately 76%. Notwithstanding the presence of these ATs and other emerging trading technologies, the NYSE remains the predominant trading marketplace for listed securities. It is unclear, however, how ATs and other new technologies, in addition to other recent events (such as the merger of the NYSE and Archipelago, the hybrid model and Regulation NMS, all as described below), will continue to affect the future percentages of trading in listed stocks on the NYSE.

In response to the development of ATs, in 2001 the NYSE launched Network NYSE, a suite of market information and auto-execution products offering new choices to different types of customers. Some examples of these products include:

NYSE Direct+®, an automatic execution service for limit orders up to 1,099 shares, enabling investors to automatically execute orders at the national best bid offer;

NYSE Open Book(SM), an online market data product allowing subscribers to view information on the NYSE limit order books; and

Institutional Express(SM), an electronic gateway to satisfy large order requirements and the growing information needs of NYSE member firms and their institutional customers.

#### ***Our Specialist and Market-Making Operations***

Due largely to acquisitions and an increase in the number of our specialist stocks from 1997 through 2001, we historically experienced strong revenue growth in our Specialist and Market-Making segment during that period. From 2002 through 2004, however, our aggregate specialist and market making revenues declined from \$401.2 million in 2002 to \$245.0 million in 2004.





Our revenues stabilized in 2005, and our aggregate specialist and market-making revenues increased to an aggregate of \$283.6 million. These results were due, in part, to an overall increase in market trading and our strategic response to the above-described recent changes in investor behavior from concentration on individual stocks to alternatives such as sector and index trading, as well as ETFs. Over the past few years, we have increased our focus on our options, futures and ETFs specialist and market making-operations. The Specialist and Market-Making segment has been employing more capital in its trading activities on more exchanges, and in derivative products and ETFs, in order to seek growth opportunities while maintaining a leadership position in the cash equities specialist market. Our initial acquisition strategy and strategic organic growth has enabled us to gather products in our specialist and market-making operations on additional exchanges and in additional countries. A restructuring of certain of our specialist and market-making subsidiaries has allowed us to develop our specialist and market-making operations across various exchanges and marketplaces. These initiatives have also enabled us to better allocate and deploy our capital, workforce and technology across our operations in order to more efficiently seek out opportunities as they arise. We also believe that a recently proposed NYSE rule, pending approval by the SEC, could substantially reduce the liquid asset requirements of our NYSE specialist operations, and could provide us with additional capital to efficiently redeploy our working capital to new opportunities in other products and markets.

*Our NYSE and AMEX Equity Specialists*



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Our NYSE and AMEX equity specialist operations are conducted through our LaBranche & Co. LLC subsidiary. As a specialist in equity securities and rights listed on the NYSE and in equity securities on the AMEX, LaBranche & Co. LLC's role is to maintain, as far as practicable, a fair and orderly market in its specialist stocks. In doing so, it provides a service to its listed companies, and to the brokers, traders and investors who trade in its specialist stocks. As a result of our commitment to providing high quality specialist services, we have developed a solid reputation among our constituencies, including investors, members of the Wall Street community and our listed companies.

Since our initial public offering, we have increased the number of our listed companies and specialist market share both internally and through acquisitions. Since the NYSE implemented its new specialist allocation process in March 1997, we have been selected by 194 new listed companies, resulting from 490 listing interviews through December 31, 2005. In addition, we have acquired eleven specialist operations since 1997, adding approximately 500 NYSE common stocks and 52 AMEX common stocks. As a result of internal growth and selective acquisitions, our LaBranche & Co. LLC subsidiary currently is a leading NYSE specialist as illustrated by the following data:

the dollar volume traded of stocks for which LaBranche & Co. LLC was the specialist on the NYSE in 2005 was \$3.4 trillion, or 24.7% of total 2005 NYSE dollar volume, and was \$2.8 trillion in 2004, or 25.4% of total 2004 NYSE dollar volume;

the share volume traded of stocks for which LaBranche & Co. LLC was the specialist on the NYSE in 2005 was 102.1 billion, or 26.3% of total 2005 NYSE share volume, and was 96.1 billion in 2004, or 27.1% of total 2004 NYSE share volume; and

as of December 31, 2005, the total number of LaBranche & Co. LLC's NYSE common stock listings was 563, or 21.3% of all NYSE common stock listings, and as of December 31, 2004, its total number of NYSE common stock listings was 580, or 22.1% of all NYSE common stock listings.

By these three measurements, LaBranche & Co. LLC was one of the largest NYSE specialist firms as of December 31, 2005 and 2004. In addition, LaBranche & Co. LLC acted as the specialist for 240 other NYSE-listed securities (e.g., preferred stocks and derivative securities).

As of December 31, 2005, LaBranche & Co. LLC's listed companies included:

105 of the S&P 500 Index companies;

30 of the S&P 100 Index companies; and

7 of the 30 companies comprising the Dow Jones Industrial Average ( DJIA ). Our DJIA stocks are 3M Co., Altria Group, Inc., American Express Company, E.I. du Pont de Nemours and Company, Exxon Mobil Corporation, Merck & Co. Inc., and SBC Communications Inc. (renamed AT&T Inc after its acquisition of AT&T Corp. in 2005).

#### *Our Options, Futures and ETFs Specialists and Market-Makers*

Through September 25, 2002, our AMEX specialist operations for both equities and options were conducted entirely by LaBranche & Co. LLC. Since then, in order to continue our expansion into new products and markets, we have conducted our options, ETFs and other derivatives specialist and market-making business activities on the AMEX, NYBOT, PHLX, Chicago Board Options Exchange® ( CBOE ), and other exchanges through our LSP subsidiary, and have conducted our NYSE ETFs specialist operations through our LSPS subsidiary. Our equity specialist activities on the AMEX continue to be conducted by LaBranche & Co. LLC.

In August and September 2005, we reorganized our options, futures and ETFs specialist and market-making operations under our LSHI holding company subsidiary in order to facilitate the liquidity and working capital management of our specialist and market-making activities. During 2005, our options, futures and ETFs specialist and market-making operations continued to expand substantially, through our LSP and LSPS subsidiaries. From 2002 through 2005, we expanded our market-making activities to different derivative products as well as to other exchanges. As of December 31, 2005, we acted as the specialist for 640 options, 5 futures and 30 ETFs listed on the AMEX, NYBOT, PHLX and other

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exchanges, and acted as a market-maker in ETFs, options and futures on several exchanges. We also were the specialist in 19 ETFs listed on the NYSE.

We are responsible for creating a fair and orderly market in the trading of our specialist options, futures and ETFs. In doing so, we may at times be obligated to trade against the market, adversely impacting the profitability of the trade or creating a position that may not necessarily be desired. To hedge the risk of our derivative positions, we may buy or sell the underlying asset(s). As a market-maker, we also trade these derivative securities as principal out of both obligation and inclination.

As a registered market-maker in options, ETFs and futures, our Specialist and Market-Making segment generally engages in a course of dealings that is reasonably calculated to contribute to the maintenance of a fair and orderly market. We also may hedge these positions with the underlying assets or other financial instruments. In our market-making function, we bring immediacy and liquidity to the markets when we choose to participate.

In January 2005, we formed LSPE to be a market-maker for ETFs traded on the London Stock Exchange, Euroex and Euronext exchanges. In August 2005, we formed LSPH to be a market-maker in ETFs traded in Hong Kong and to conduct hedging transactions in Hong Kong markets related to our specialist and market-making activities. As part of our LSP-entity reorganization in August and September 2005, both LSPE and LSPH became wholly-owned subsidiaries of LSHI. LSPE and LSPH have yet to commence operations. LSPE was registered as a broker-dealer with the UK's Financial Securities Authority ( FSA ) in March 2006, and LSPH is in the process of registering as a broker-dealer with Hong Kong's Securities and Futures Commission ( SFC ). Upon commencement of operations, we expect LSPE and LSPH to strengthen our specialist and market-making relationships with U.S. ETF issuers abroad, which we believe will help our Specialist and Market-Making segment further diversify its exchange base and better manage its risk.

*Our Specialist Support Services*





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In April 2002, BV was organized to represent LaBranche & Co. LLC in European markets and to provide client services to LaBranche & Co. LLC's European-listed companies. BV was established under Dutch law, and its office is in Amsterdam, The Netherlands. Through a services agreement, BV provides monitoring and trading services for LaBranche & Co. LLC's specialist stock positions, as specifically directed by appropriately designated LaBranche & Co. LLC personnel. In addition, BV markets the services of our specialist entities to existing and prospective European NYSE-listed issuers.

For detailed financial information in connection with our Specialist and Market-Making segment, please see Management's Discussion and Analysis of Financial Condition and Results of Operations' Specialist and Market-Making Segment Operating Results' and Note 17 to the Financial Statements filed herewith.

### *Rules Governing Our Specialist and Market- Making Activities*



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Under NYSE and AMEX rules, a specialist has a duty to maintain, as far as practicable, a fair and orderly market in its specialist securities. In order to fulfill its obligations, the specialist must at times trade for its own account, even when it may adversely affect the specialist s

profitability. In addition, under certain circumstances, the specialist is prohibited from making trades as principal in its specialist stocks. The specialist's obligations are briefly described below.

*Requirement to Trade as Principal.* A specialist must buy and sell securities as principal when necessary to minimize an actual or reasonably anticipated short-term imbalance between supply and demand in the auction market. The specialist must effect these transactions when their absence could result in an unreasonable lack of continuity and/or depth in its specialist stocks. The specialist is not expected to act as a barrier in a rising market or as support in a falling market, but must use its own judgment to try to keep such price increases and declines equitable and consistent with market conditions.

A specialist must make continuous two-sided quotations that are timely and that accurately reflect market conditions. In making these quotations, the specialist's transactions are calculated to contribute to the maintenance of price continuity with reasonable depth.

In addition, the specialist cannot be in a control relationship with any of its listed companies. Generally, this means a specialist may not acquire more than 5% of any common or preferred issue of its specialist stocks and may not own 10% or more of any common or preferred stock. A specialist may not hold any position as an officer or director with, receive payments or loans from, or engage in certain business transactions with any of its listed companies.

*New SEC-Proposed Market Rules.* In February 2004 and again on August 2, 2004, the NYSE proposed to expand its Direct+® trading system to eliminate the current limits on size, timing and types of orders that currently may be executed electronically through the Direct+® system and thereby create a so-called hybrid market intended to incorporate a number of new trade execution options while preserving the option of access to auction price discovery and deep liquidity. Specifically, the NYSE's proposals would eliminate the 1,099-share restriction on NYSE Direct+® orders, as well as the prohibition against entering orders for the same account within 30 seconds, and would permit market orders and immediate-or-cancel orders to be eligible for Direct+® execution. In addition, the NYSE's proposals contain a number of other new features designed to create a liquidity pool accessible for electronic and auction price discovery; the opportunity for benefits associated with human judgment at the point of sale; and accountable performance with focused communication by specialists. The NYSE has begun the technological work necessary to implement its proposed changes in the NYSE Direct+® system and, in December 2004, extended the pilot phase of this Direct+® system through December 23, 2005, subject to review and approval of these proposed changes by the SEC. It is possible that the NYSE may again extend this pilot phase in order to complete the technological work to finalize the Direct+® system.

In February 2004, the SEC proposed new rules which would require, subject to certain exceptions, that every order execution facility (*i.e.*, every national securities exchange, national securities association that operates an order execution facility, alternative trading system, exchange specialist and market maker, OTC market maker, block positioner and any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent) establish, maintain and enforce policies and procedures reasonably designed to prevent the execution of a trade-through (*viz.*, the execution of an order at a price that is inferior to a price displayed in another market) in its market. As originally proposed, this requirement would apply



to all incoming orders in NMS Stocks, including all NASDAQ, NYSE and AMEX-listed stocks and any order execution facility that executes orders internally within its market, whether or not that market posts its best bid and offer, and would have (1) allowed customers (and broker dealers trading for their own accounts) to opt-out of the protections of the rule by providing informed consent to the execution of their orders, on an order-by-order basis, in one market without regard to the possibility of obtaining a better price in another market, and (2) taken into account the differences between the speed of execution in electronic versus manual markets by providing an automated market with the ability to trade through a non-automated market at a price up to a certain amount away from the best bid or offer displayed by the non-automated market.

On April 6, 2005, the SEC adopted Regulation NMS ( Regulation NMS ). Regulation NMS is expected to become effective in the second half of 2006 and could have a significant impact on the regulation of trading on securities exchanges and marketplaces. Specifically, the rule establishes inter-market protection against trade-throughs for all NMS stocks and protection of only those quotations that are immediately accessible through automatic execution. The rule generally does not contain the opt-out exception described above that would have allowed market participants to disregard displayed quotations, but does include a number of exceptions to the opt-out proscription to help ensure that the rule is workable with high-volume securities. The rule also is anticipated to protect the best bids and offers of each exchange, Nasdaq, and the NASD's Alternative Display Facility. While it is too early to anticipate the impact that Regulation NMS could have on our trading, it is possible that the rule could materially affect our compliance costs and alter the competitive environment in which our Specialist and Market-Making segment functions. Refer to Recent Trends in NYSE Trading for detailed discussion.

*The Recently-Consummated NYSE Merger.* On April 20, 2005, Archipelago Holdings, Inc., entered into a definitive merger agreement with the NYSE, as amended on July 20, 2005, pursuant to which Archipelago and NYSE agreed to combine their businesses and become wholly-owned subsidiaries of NYSE Group, Inc., a newly-created, for-profit and publicly-traded holding company. On March 7, 2006, the merger was consummated. Consequently, the former NYSE business is now held in three separate entities under the NYSE Group: New York Stock Exchange LLC; NYSE Market, Inc. and NYSE Regulation, Inc. New York Stock Exchange LLC will only hold the equity interests of NYSE Market and NYSE Regulation.

NYSE Market has issued trading licenses to all registered broker-dealers wishing to conduct business on the NYSE, subject to payment of a fee to NYSE Market. These trading licenses replaced the prior trading rights provided by the ownership or lease of an NYSE membership prior to the NYSE/Archipelago merger. In January 2006, we participated in a Dutch auction for these trading licenses and successfully bid for 90 trading licenses in our Specialist and Market-Making segment (five additional licenses were obtained for our Execution and Clearing segment operations). Organizations holding trading licenses generally are subject to the same rules that were applicable to member organizations prior to the merger. Each trading license entitles its holder to physical and electronic access to the trading facilities of NYSE Market, subject to such limitations and requirements as may be specified, and in each case

includes the right to designate a natural person, subject to pre-approval by NYSE Regulation, who may have physical access to the floor and facilities of NYSE Market to trade.

In connection with the NYSE/Archipelago merger, the NYSE amended NYSE Rule 103B, the Exchange Allocation Policy. The NYSE Market is granted the right to determine the number and identity of specialist firms from which a new listing issuer may choose its specialist, provided the group consists of at least four specialist firms. The NYSE Market and the issuer are provided with the same material with respect to each specialist firm applicant as would have been reviewed by the Allocation Committee in allocating a listing. We, therefore, do not expect the NYSE merger to materially affect the specialist allocation process or our specialist operations on the NYSE.

*Listed Company Services*





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We are committed to providing our listed companies with a high level of service, in addition to our specialist functions on the trading floor. Our corporate relations effort is devoted to serving our listed companies by providing them with current market information and insight on general market trends. We organize an annual educational conference that reviews trends in the securities industry and equity markets. For newly listed companies, we provide additional investor relations support services to assist the companies with their transition to the exchange on which they are listed. These services add significant value for companies considering a listing on an exchange.

### *Competition in the Specialist and Market-Making Industry*



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We obtain each of our new listings on the NYSE and AMEX by participating in an allocation process. As part of this process, either the allocation committee of the NYSE or AMEX or the listing company chooses the specialist firm. We compete with other specialist firms based on a number of factors, including:

the strength of our capital base;

our willingness to commit our own capital and trade for our own account while conducting our specialist operations; and

the ancillary services we offer our specialist companies, such as providing information on the trading activity in their stocks.

The specialist industry experienced a vast and accelerated consolidation over the period of 1995 through 2001 with the five largest specialist units, as ranked by their number of specialist stock listings, accounting for 95.2% of the daily share volume traded on the NYSE in 2005 as compared to 95.1% in 2004. The competition for obtaining newly listed companies is intense. We expect competition to continue and intensify as some of our competitors may have greater financial resources and product service offerings.

As more fully described above in **The Recently-Consummated NYSE Merger**, under the newly released NYSE Rule 103B, **The Exchange Allocation Policy**, the NYSE Market is granted the right to determine the number and identity of specialist firms from which a new listing

issuer may choose a specialist, provided the group consists of at least four specialist firms. The NYSE Market and the issuer will be provided with the same material with respect to each specialist firm applicant as would have been reviewed by the Allocation Committee in allocating a listing. We, therefore, do not expect the NYSE merger to materially affect the specialist allocation process or our specialist operations on the NYSE.

***Our Specialist and Market-Making Segment s Competitive Position***



We are committed to providing the highest quality service to our various constituencies. Our strong competitive position is based on the following factors:

*Leading Position in the Specialist and Market-Making Market.* We have a long-standing reputation as a leading specialist firm. We have successfully grown our business and improved our services through widely varying market conditions. Our cash equities specialist operations during 2005 accounted for 25.1% of the dollar value and 26.4% of the share volume traded on the NYSE, and 124 of our specialist common stock listings were securities of non-U.S. companies as of December 31, 2005. By these measures, we were the largest specialist firm on the NYSE. We are also one of the largest ETF specialist firms on the NYSE and AMEX, as the specialist in 49 ETFs out of an aggregate of 201 listed ETFs as of December 31, 2005. We are also one of the largest market-makers on various exchanges in options futures and ETFs.

*Diverse and High Quality Specialist and Market-Making Securities.* The companies for whose securities we are specialist and market-maker operate in a variety of industries, including financial services, media, oil and gas, retail, technology and telecommunications. Many of these companies are leaders in their respective fields. They range in market capitalization from some of the smallest on the NYSE and AMEX to some of the largest and most well-known. Being the specialist and market-maker in the securities of industry leaders could benefit us as these leading companies expand their businesses through internal growth and acquisitions.

*Ability to deploy capital efficiently.* We have employed more capital in our trading activities on more exchanges, and in derivative products and ETFs, in seeking growth opportunities while maintaining a leadership position in the cash equities specialist market. Our initial acquisition strategy and strategic organic growth has enabled us to gather products in our specialist and market-making operations on additional exchanges and in additional countries. A restructuring of certain of our specialist and market-making subsidiaries has allowed us to develop our specialist and market-making operations across various exchanges and market places. The organizational structure of our Specialist and Market-Making segment should enable us to better allocate and deploy our capital, workforce and technology across our operations in order to more efficiently seek out opportunities as they arise.

*Strong Trading and Technology Skills.* We utilize our trading skills to actively participate as principal in trading our specialist and market-making securities. We significantly improve liquidity in our specialist and market-making securities and

quickly and ably create ETFs for our ETFs specialist customers, particularly during periods of market volatility. Additionally, as the securities trading marketplace becomes more electronic, as further evidenced by the NYSE's proposed hybrid market model, we are developing electronic trading capabilities which will allow us to interact in a fast and more automated auction market. We have a technology group which develops algorithmic models that may be used in electronic trading markets and in the proposed hybrid model.

*Innovative Customer-Oriented Services.* In addition to our specialist and market-making functions on the trading floor, we provide our specialist-based listed companies with a high level of service (*e.g.*, detailed information on the trading activity of their securities), as well as customized support services to assist in their investor relations efforts.

*Completed Acquisitions and Strategic Organic Growth.* Since 1997, we have acquired eleven specialist operations adding approximately 500 NYSE common stocks and 52 AMEX common stocks, solidifying our position as one of the leading NYSE specialist firms, as well as establishing and expanding our presence on the AMEX. We also have continued our organic growth by creating the current LSHI structure to facilitate our expansion within the options, futures and ETFs specialist and market-making market. Our growth as a specialist in ETFs has particularly played a role in this growth, as we are now the specialist in 49 ETFs traded on the NYSE and the AMEX.

#### **Our Execution and Clearing Segment**

##### *Recent Trends in Execution and Clearing Industry*





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The traditional clearing industry has, over the last few years, consolidated down to a small number of highly capitalized and extremely focused competitors. Mostly owned by or affiliated with large investment or commercial banks, these few top competitors command the dominant share of the fully-disclosed correspondent clearing market. As a result, barriers to entry have risen and the capital expenditures necessary to maintain market share have increased.

As the result of years of advances in order delivery and execution technology, trading costs for customers across all categories (retail, institutional, etc.) have dropped dramatically. These advances in trading technologies, and the resulting economies afforded the customer, have also engendered an entirely new style of investment management, where algorithms embedded in servers generate, direct and account for orders with minimal human interaction. Orders generated and delivered over purely electronic platforms now account for more than 50% of NYSE volume.

In addition, there has arisen a number of non-traditional execution venues that bypass the traditional exchanges and ECN's in which institutions can trade directly with each other without exposing orders to market-wide price verification.

***Our Execution and Clearing Operations***

LFSI, which is the sole operating entity constituting our Execution and Clearing segment, provides clearance and execution services to a range of clients. To our broker dealer correspondents, we provide traditional clearance services. To our own customers, which include institutions and individuals, we provide a range of customized execution services, including direct-access brokerage.

LFSI does not focus on commoditized bulk clearance and execution. LFSI targets businesses where our flexibility, customization and a versatile clearance platform provide us with a competitive advantage.

Our Institutional Executive Group ( IEG ) provides institutions with highly customized service built around special execution needs. IEG focuses on timely executions with minimal market impact. IEG handles and clears trades on every major domestic stock exchange, with straight through processing from order origination to trade execution. IEG also provides soft dollar execution and other administrative services to institutional customers. IEG has active relationships with over 255 accounts and is developing its business nationwide.

For detailed financial information in connection with our Execution and Clearing segment, please see Management's Discussion and Analysis of Financial Condition and Results of Operations Execution and Clearing Segment Operating Results and Note 17 to the Financial Statements filed herewith.

***Regulatory Matters***



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The securities industry in the United States is subject to regulation under both Federal and state laws. In addition, the SEC, NYSE, AMEX and other regulatory organizations require compliance with their rules and regulations.

Our broker-dealer subsidiaries are subject to regulations concerning the operational and financial aspects of their respective businesses. They are subject to registration requirements of various government entities and self-regulatory organizations (commonly referred to as SROs) with which they must comply before they may conduct business. Our broker-dealer subsidiaries are also subject to laws, rules and regulations requiring them to comply with financial reporting rules, trade practices, capital structure obligations and record retention requirements. Failure, or even the assertion by a regulatory organization of failure, by any of our broker-dealer subsidiaries to comply with any of these laws, rules or regulations could result in censure, fine, the issuance of cease-and-desist orders or the suspension or disqualification of its directors, officers or employees and other negative consequences, which could have an adverse effect on our business. Refer to [Legal Proceedings](#) [Specialist Trading Investigations](#). From time to time, in the ordinary course of business, we have been subject to fines for violations of such laws, rules or regulations.

Our trading subsidiaries are under constant review by the NYSE, the AMEX and the other exchanges on which they conduct operations on all aspects of their operations and financial condition. In particular, as part of the price discovery mechanism implemented by the NYSE,

every NYSE specialist transaction is published immediately and broadcast worldwide. The NYSE's Market Surveillance Division employs sophisticated monitoring and requires adherence to stringent rules approved by the SEC in its examination of NYSE specialists' trading in all stocks. The NASD's AMEX Regulation Division monitors and reviews specialists' adherence to AMEX rules and regulations, as well.

The USA PATRIOT Act of 2001 (the PATRIOT Act), which was extended on March 9, 2006, contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations that apply to broker-dealers and other U.S. financial institutions, including procedures for verifying client identity at account opening, and obligations to monitor client transactions and report suspicious activities. Through its provisions, the PATRIOT Act seeks to promote cooperation among U.S. financial services companies, regulators and law enforcement officials in identifying parties that may be involved in terrorism or money laundering. The increased obligations of financial institutions, including our broker-dealer subsidiaries, require the implementation and maintenance of internal control procedures which have increased our costs and may subject us to liability.

### *Capital Requirements*



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Our broker-dealer subsidiaries are also subject to net capital requirements as required by SEC Rule 15c3-1, and net liquid asset requirements as required by the NYSE and AMEX. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources section for our broker-dealer subsidiaries' capital requirements and actual amounts.

Failure by any of our broker-dealer subsidiaries to maintain the required net capital and/or net liquid assets may subject it to suspension or revocation of SEC registration or suspension or expulsion by the respective exchanges of which it is a member.

### **Employees**





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As of December 31, 2005, we had 525 full-time employees, of which 382 were employed at our Specialist and Market-Making segment, 96 were employed at our Execution and Clearing segment, and 47 were employed at the holding company.

### Item 1A. RISK FACTORS

The following risk factors should be carefully considered in evaluating our business and us because they have a significant impact on our business, operating results, financial condition, and cash flows. If any of these risks actually occurs, our business, financial condition, operating results and/or cash flows could be adversely affected.

*The market structure in which we operate may change, making it difficult for us to maintain our levels of profitability.*

The market structure in which we operate is subject to changes that could adversely affect our financial condition and results of operations. Most notably, the NYSE's recently-consummated

merger with Archipelago, as well as recent proposed changes in the NYSE's automated trade execution system and the SEC's recent proposed structural changes in the U.S. equity trading markets, may have an adverse effect on our business.

In February 2004 and again on August 2, 2004, the NYSE proposed to expand its Direct+® trading system to eliminate the current limits on size, timing and types of orders that currently may be executed electronically through the Direct+® system and thereby create a so-called hybrid market intended to incorporate a number of new trade execution options while preserving the option of access to auction price discovery and deep liquidity. Specifically, the NYSE's proposals would eliminate the 1,099-share restriction on NYSE Direct+® orders, as well as the prohibition against entering orders for the same account within 30 seconds, and would permit market orders and immediate-or-cancel orders to be eligible for Direct+® execution. In addition, the NYSE's proposals contain a number of other new features designed to create a liquidity pool accessible for electronic and auction price discovery; the opportunity for benefits associated with human judgment at the point of sale; and accountable performance with focused communication by specialists. The NYSE has begun the technological work necessary to implement its proposed changes in the NYSE Direct+® system and, in December 2004, extended the pilot phase of this Direct+® system through December 23, 2005, subject to review and approval of these proposed changes by the SEC. It is possible that the NYSE may again extend this pilot phase in order to complete the technological work to finalize the Direct+® system.

In February 2004, the SEC proposed new rules which would require, subject to certain exceptions, that every order execution facility (*i.e.*, every national securities exchange, national securities association that operates an order execution facility, alternative trading system, exchange specialist and market maker, OTC market maker, block positioner and any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent) establish, maintain and enforce policies and procedures reasonably designed to prevent the execution of a trade-through (*viz.*, the execution of an order at a price that is inferior to a price displayed in another market) in its market. As originally proposed, this requirement would apply to all incoming orders in NMS Stocks, including all NASDAQ, NYSE and AMEX-listed stocks and any order execution facility that executes orders internally within its market, whether or not that market posts its best bid and offer, and would have (1) allowed customers (and broker dealers trading for their own accounts) to opt-out of the protections of the rule by providing informed consent to the execution of their orders, on an order-by-order basis, in one market without regard to the possibility of obtaining a better price in another market, and (2) taken into account the differences between the speed of execution in electronic versus manual markets by providing an automated market with the ability to trade through a non-automated market at a price up to a certain amount away from the best bid or offer displayed by the non-automated market.

On April 6, 2005, the SEC adopted Regulation NMS ( Regulation NMS ). Regulation NMS is expected to become effective in 2006 and could have a significant impact on the regulation of trading on securities exchanges and marketplaces. Specifically, the rule establishes inter-market protection against trade-throughs for all NMS stocks and protection of only those quotations that are immediately accessible through automatic execution. The rule generally does not contain the opt-out exception described above that would have allowed market participants to disregard displayed quotations, but does include a number of exceptions to the opt-out

proscription to help ensure that the rule is workable with high-volume securities. The rule also is anticipated to protect the best bids and offers of each exchange, Nasdaq, and the NASD's Alternative Display Facility. While it is too early to anticipate the impact that Regulation NMS could have on our trading, it is possible that the rule could materially affect our compliance costs and alter the competitive environment in which our Specialist and Market-Making segment functions.

There also may be regulatory changes following the closing of the merger of the NYSE and Archipelago Holdings, Inc. Any failure by us to adapt to these changes could materially adversely affect our results in the new NYSE Market following the merger. Please see "Risks Associated with the Recently-Consummated NYSE Merger" for a more detailed discussion.

*We are subject to extensive regulation under federal and state laws that could result in investigations, fines or other penalties.*

On March 29, 2004, we entered into a definitive agreement with the NYSE and the SEC to settle investigations by the NYSE and the SEC concerning specialist trading activity. Pursuant to the agreement, and without admitting or denying any wrongdoing, we paid on April 7, 2004 a total of \$63.5 million with respect to certain trades that occurred during the five-year period from 1999 through 2003. In December 2004, our LaBranche & Co. LLC subsidiary received a notice from the NASD Amex Regulation Division stating a preliminary determination by the NASD Amex Regulation Division's staff to seek disciplinary action against LaBranche & Co. LLC for violations of certain federal securities laws and the AMEX's Constitution and Rules, including Sections 10(b), 9A and 17(a) of the Securities Exchange Act of 1934, in connection with manual book freezes effected in one of LaBranche & Co. LLC's Amex specialist stocks during the period March 8, 2004 through October 21, 2004. This notice of possible disciplinary action has not yet been resolved.

In addition, our broker-dealer subsidiaries are subject to increasing regulatory inquiries and informal investigations in the ordinary course of business and, as a result, are spending more resources on responding to, and defending, these inquiries and investigations. It is possible that these additional resources could result in increased legal and professional fees, as well as additional fines and formal regulatory actions going forward. It is too early to predict whether and to what extent any of these regulatory inquiries could escalate. However, if any of these ordinary inquiries progress into material regulatory or legal proceedings, such proceedings could result in settlements, determinations or judgments requiring substantial payments of sanctions, fines and penalties, as well as the costs of defending these actions, which could materially and adversely affect our business and operations.

*We cannot assure you that we will be able to detect or prevent all employee misconduct or rule violations.*

We are subject to extensive regulation under both federal and state laws. In addition, the SEC, the NYSE, the NASD, the AMEX, other SROs and state securities commissions require strict compliance with their respective rules and regulations. As a result of our acquisitions since 1997 and the increase in the size of our business and in the number of our employees, the risk that we will not detect or prevent employee misconduct has increased. Employee misconduct that

may be difficult to detect could result in losses. Misconduct by employees could include, among other things, binding us to transactions that exceed authorized limits or present excessive risks, violation of securities rules or exchange rules that have not been detected by the technological systems installed by the exchanges to prevent such violations or hiding from us unauthorized or unsuccessful activities, which, in any case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputation or financial harm.

If there are any additional investigations or actions against us or any of our subsidiaries, such investigations or actions could result in settlements, determinations or judgments requiring substantial payments by us, including the costs of defending such investigations or actions, the imposition of substantial sanctions, fines or penalties and the suspension or revocation of our registration with the SEC as a broker-dealer or our suspension or expulsion as a member firm of the NYSE, the AMEX and the other exchanges on which we operate, in which case we would be unable to operate our business.

It also may be difficult for us to comply with other new or revised legislation or regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities and SROs, including the NYSE and the AMEX. The risks of failure to comply with foreign laws and rules will increase as our LSPE and LSPH subsidiaries begin to operate as foreign broker-dealers. Failure to comply with any of these rules or regulations would have an adverse effect on our business, financial condition and/or operating results. Other changes in the interpretation or enforcement of existing laws and rules by the SEC, these governmental authorities and SROs also could have an adverse effect on our business, financial condition and/or operating results.

*Failure to comply with undertakings set forth in the settlement with the NYSE and SEC could adversely affect us.*

In connection with the settlement of the NYSE and the SEC investigations concerning our NYSE specialist trading activity, we agreed to, and we are complying with, the following undertakings:

implementation of systems and procedures to ensure appropriate follow up and review with regard to information provided to LaBranche & Co. LLC on a daily basis by the NYSE with regard to specialists' override of the Principal Inhibitor function, which identifies specialist principal trades that may have been effected while an executable agency order was reflected in the order book on the same side of the market;

creation of a committee, including LaBranche & Co. LLC's chief compliance officer and at least two members of senior management, specifically charged with meeting periodically (no less frequently than monthly) to evaluate specialist rule compliance;

development and/or enhancement of systems and procedures to track and maintain records identifying the individuals acting as specialist and clerk for each security at all times throughout each trading day;

annual certification, through LaBranche & Co. LLC's chief executive officer, that a review has been conducted by the chief compliance officer of trading in LaBranche &

Co. LLC's principal account for the purpose of detecting interpositioning, trading ahead and unexecuted limit order violations;

bi-annual assessment of, and reports on, the adequacy of the resources devoted to LaBranche & Co. LLC's compliance function, and devotion of adequate funds and staffing to the compliance department; and

retention of an independent consultant to review and evaluate LaBranche & Co. LLC's compliance systems, policies and procedures reasonably designed to ensure that LaBranche & Co. LLC is in compliance with federal securities laws and NYSE rules with regard to specialist trading.

If we are, in the future, unable to maintain our compliance with any of these undertakings for reasons that we cannot foresee, such failure could have a material adverse effect on our business and our regulatory compliance structure.

*We also are subject to the risks of securities laws liability and related civil litigation.*

Many aspects of our business involve substantial risks of legal liability. A specialist is exposed to substantial risks of liability under federal and state securities laws, other federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC, the NYSE and the AMEX.

The above-described settlement with the NYSE and SEC has also resulted in the initiation of purported class action and derivative action proceedings against us and certain of our officers and directors in the United States District Court for the Southern District of New York and other proceedings in other courts, all of which are described under *Business Legal Proceedings*. In 2004 and early 2005, we also had received requests for information from the SEC and the United States Attorney's Office for the Southern District of New York as part of an industry-wide investigation relating to activities of NYSE floor specialists from 1999 through 2003. Two additional actions have been commenced by entities against four national securities exchanges and 35 securities brokers (including our LSP subsidiary) in the United States District Court for the Northern District of Illinois, alleging that LSP conspired with the other defendants by allegedly failing to execute orders, canceling orders and refusing to cancel orders for the purchase and sale of options.

While we deny the allegations of wrongdoing against us in these actions, there can be no assurance as to the ultimate outcome or timing of their resolution. The range of possible resolutions could include determinations and judgments against us or settlements that could require substantial payments by us, including the costs of defending such investigations and suits, which could have a material adverse effect on our financial condition, results of operations and cash flows.

We also are subject to the risk of civil litigation, employment claims and other actions in the ordinary course of our business operations. In particular, LFSI, as successor in interest to ROBB PECK McCOOEY Clearing Corporation, or RPMCC, has been the target, from time to time, of various claims and lawsuits incidental to the ordinary course of RPMCC's business.



operations, and we have been the subject of a suit filed on behalf of a former employee by the Equal Employment Opportunity Commission for discrimination on the basis of disability. It is possible that we could incur significant legal expenses in defending ourselves against these and future lawsuits or claims. An adverse resolution of any future lawsuits or claims against us could have an adverse effect on our business, financial condition and/or operating results.

*We may have insufficient capital in the future and may be unable to secure additional financing when we need it.*

Our business depends on the availability of adequate capital. We cannot be sure that we will have sufficient capital in the future or that additional financing will be available on a timely basis, or on terms favorable to us. Historically, we have satisfied these needs with internally generated funds, the issuance of subordinated debt by our operating subsidiaries and the issuance of common stock and notes representing our indebtedness. While we currently anticipate that our available cash resources will be sufficient to meet our anticipated working capital, regulatory capital and capital expenditure requirements through at least the next twelve months, we may need to raise additional funds to:

increase the capital available to us for our inventory positions;

expand or diversify our operations;

acquire complementary businesses; or

respond to unanticipated capital requirements.

We may be required to obtain this additional financing on short notice as a result of rapid, unanticipated developments, such as a steep market decline.

*Our revenues may decrease due to changes affecting the economy or changes affecting the securities markets, such as decreased volume, volatility or liquidity.*

Adverse changes affecting the economy and/or the securities markets could result in a further decline in market volatility or liquidity, thus negatively impacting revenues at our Specialist and Market-Making segment and our Execution and Clearing segment. Many elements of our cost structure do not decline if we experience reductions in our revenues and we may be unable to adjust our cost structure on a timely basis, or at all, and we could suffer losses.



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The lack of growth in share volume, rising program trading and low levels of volatility on the NYSE over the past three years have negatively affected our results of operations and may adversely affect our operations in the future. Although U.S. equity prices generally recovered in 2003, 2004 and 2005, adverse changes in the economy and the securities markets could return, resulting in:

losses from declines in the market value of securities held in our accounts;

a decline in trading volume on the NYSE, the AMEX and other exchanges;

a decline in volatility in the securities markets in which we act as a specialist;

the failure of buyers and sellers of securities to fulfill their settlement obligations; and

further increases in claims and litigation.

Whether market and economic conditions will continue to improve and whether we will be able to adequately protect our interests and maintain revenues in the future is uncertain.

*Risks associated with our trading transactions could result in trading losses.*

A majority of our Specialist and Market-Making segment's revenues are derived from trading by us as principal. We may incur trading losses relating to these activities, since each such trade primarily involves the purchase, sale or short sale of securities for our own account. In any period, we may incur trading losses in a significant number of our specialist stocks, options, rights and ETFs for a variety of reasons, including price declines, lower trading volumes and the required performance of our specialist obligations. From time to time, we have large position concentrations in securities of a single issuer or issuers engaged in a specific industry. In general, because our inventory of securities is marked-to-market on a daily basis, any downward price movement in these securities results in an immediate reduction of our revenues and operating results. Our specialist and market-maker trading in options, ETFs, futures, other derivative instruments and foreign currencies also exposes us to certain additional risks associated with such factors as price fluctuations, foreign exchange currency movements, changes in the liquidity of markets, volatility and counterparty credit. Although we have adopted and carry out risk management procedures, we cannot be sure that these procedures have been formulated properly to identify or completely limit our risks and, even if formulated properly, we cannot be sure that we will successfully implement these procedures. As a result, we may not be able to manage our risks successfully or avoid trading losses.

Our securities transactions are conducted as principal and agent with broker-dealer counterparties located in the United States. While the NYSE, the AMEX and the clearing houses monitor the credit standing of the counterparties with which we conduct business, we cannot be certain that any of these counterparties will not default on their obligations. If any do, our business, financial condition and/or operating results could be adversely affected.

*Specialist and market-maker rules require us to make unprofitable trades and refrain from making profitable trades.*

Our roles as a specialist and market maker, at times, require us to make trades that adversely affect our operating results. In addition, as a specialist and market-maker, we are at times required to refrain from trading for our own account in circumstances in which it may be to our advantage to trade. For example, we may be obligated to act as a principal when buyers or sellers outnumber each other and take a position counter to the market, buying or selling shares to support an orderly market in the affected stocks. In addition, specialists and market-makers generally may not trade for their own account when public buyers are meeting public sellers in an



orderly fashion and may not compete with public orders at the same price. By having to support an orderly market, maintain inventory positions and refrain from trading under some favorable conditions, we are subject to risk. In addition, one consequence of the SEC and the NYSE investigations of NYSE specialist trading practices may be amendments by the NYSE and, possibly, the AMEX, of the rules, practices and procedures governing our specialist and market-making activities in a manner that could adversely affect our trading revenues.

*Failure to comply with net capital and net liquid asset requirements may result in the revocation of our registration with the SEC or our expulsion from the NYSE and/or the AMEX.*

The SEC, the NYSE, the AMEX and various other regulatory agencies have stringent rules with respect to the maintenance of minimum levels of capital and net liquid assets by securities broker-dealers and specialist firms. Currently, LaBranche & Co. LLC and LSPS are required to maintain minimum combined net liquid assets of approximately \$447.0 million. Failure by any of our broker-dealer and specialist subsidiaries to maintain its required level of net capital and net liquid assets may subject it to suspension or revocation of its SEC registration or suspension or expulsion by the NYSE and/or the AMEX. If this occurs, we would be unable to operate our business. In addition, a change in these rules, the imposition of new rules or any unusually large capital requirement or charge against the regulatory capital of any of our broker-dealer subsidiaries could limit those areas of our operations which require intensive use of capital. These rules also could restrict our ability to withdraw capital from our broker-dealer subsidiaries, thus limiting our ability to expand, diversify or even maintain our present levels of business, pay dividends, repay debt and repurchase shares of our outstanding common stock.

*We depend primarily on our Specialist and Market-Making activities, and if they fail to generate revenues as anticipated, it would adversely affect our financial condition and results of operations.*

We derive the vast majority of our revenues from specialist and market-making activities. If demand for our specialist and market-making services fails to grow, grows more slowly than we currently anticipate or declines, our financial condition and results of operations would be adversely affected. We expect our specialist and market-making activities to continue to account for the vast majority of our revenues for the foreseeable future. Our future success will depend on:

continued growth in the volume of trading and the number of listings on the NYSE, the AMEX and other exchanges;

being chosen as the specialist for additional listed companies and ETFs;

our ability to respond to regulatory and technological changes; and

our ability to respond to changing demands in the marketplace.

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Over the past few years, a number of alternative trading systems have been developed or emerged. These alternative trading systems may compete with specialists by increasing trading in

NYSE-listed and AMEX-listed securities off the NYSE and the AMEX trading floors. This can be seen in the decrease in the NYSE's percentage of overall U.S. trading volume from approximately 84% in 2002 to approximately 76% in 2005. In addition, as described above, the SEC and the NYSE's market structure rule changes could result in increased trading of NYSE-listed and AMEX-listed securities in electronically-matched orders and thus reduce levels of trading of such securities through specialists.

Historically, a relatively small number of listed companies has accounted for a significant portion of our revenues from our NYSE specialist trading activities. The loss of any of these listed companies could have an adverse effect on our revenues. For the years ended December 31, 2003, 2004 and 2005, transactions in our 10 most actively traded NYSE specialist stocks accounted for approximately 19.0%, 16.8% and 13.6% of our total NYSE principal trading revenues, respectively. The composition of these ten most actively traded specialist stocks changes frequently. We cannot be certain that we will be able to retain these or any other of our top listed companies. We can lose these listed companies if they cease to be traded on the NYSE as a result of being acquired or otherwise delisted. In addition, under NYSE procedures allowing listed companies greater latitude to request a change in their specialist or if the NYSE were to determine that we have failed to fulfill our obligations as specialist for a listed company, our registration as the specialist for that listed company could be canceled or suspended. Although we have further diversified our specialist and market-making operations into additional products and marketplaces, this diversification may not adequately diminish our risk of reliance on certain operations.

*We cannot assure you that we will continue to be able to effectively compete in the specialist and market-making industry.*

We cannot be sure that we will be able to compete effectively with current or future competitors in the specialist and market-making industry. We obtain all our new equity listings on the NYSE by going through an allocation process. In this process, either a committee of the NYSE or the listing company chooses the specialist. The competition for obtaining new listing companies is intense. We expect competition to continue and further intensify in the future. We also compete with significantly larger entities to be the specialist in ETFs traded on the NYSE and the AMEX. Although we have been able to secure a market share of the ETF specialist business with many of the established ETF issuers, we cannot assure you that our growth in market share will continue as our competitors focus more resources on their ETF specialist business or as market participants enter the ETF market. Some of our competitors may have significantly greater financial and other resources than we have in both specialist and market-making activities and may have greater name recognition. These competitors may be able to respond more quickly to new or evolving opportunities and listing company requirements. They also may be able to undertake more extensive promotional activities to attract new listing companies, especially those which are not publicly-traded specialist firms. Our failure to compete effectively would have an adverse effect on our operating results.

*We have significant debt obligations.*

We have a significant amount of debt. As of December 31, 2005, our total debt outstanding was \$493.8 million, excluding subordinated liabilities related to contributed exchange memberships. LaBranche & Co. LLC also may borrow, subject to certain conditions, up to \$200.0 million to finance its specialist security positions under a committed line-of-credit with a U.S. commercial bank. Our significant level of debt could have important consequences, including the following:

our ability to obtain additional financing to fund growth, working capital, capital expenditures, debt service requirements or other purposes may be impaired;

our ability to use operating cash flow in other areas of our business may be limited because we dedicate a substantial portion of these funds to service our debt; and

limitation on our flexibility to adjust to changing market conditions, changes in our industry and economic downturns.

*Our ability to take certain actions may be restricted by the terms of our outstanding indebtedness.*

The covenants in the indenture governing our outstanding 9.5% Senior Notes due 2009 and our outstanding 11.0% Senior Notes due 2012, in the aggregate principal amount of approximately \$460.0 million (collectively, the outstanding senior notes), LaBranche & Co. LLC's \$200.0 million committed line of credit agreement with a bank and subordinated note purchase agreements (under which approximately \$9.0 million remains outstanding), as well as any future financing agreements, may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. These covenants may limit or restrict our ability and the ability of our subsidiaries, under certain circumstances, to:

incur additional debt;

pay dividends and make distributions;

repurchase our common stock or subordinated indebtedness prior to maturity;

make certain investments;

create liens on our assets;

transfer or sell assets;

enter into transactions with affiliates;

issue or sell stock of subsidiaries; or

merge or consolidate.



For example, our ability to take certain actions, such as incurring additional indebtedness (other than certain permitted indebtedness) or making certain restricted payments (such as paying dividends, redeeming stock or repurchasing subordinated indebtedness prior to maturity), is limited if our consolidated fixed charge coverage ratio, as defined by our debt covenants and calculated on a trailing four-quarter basis, is at or below a threshold of 2.00:1, as more fully described in Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources. Although our consolidated fixed charge coverage ratio currently is above 2.00:1, we have in the past been below this ratio, which prevented us from making restricted payments exceeding \$15.0 million in the aggregate over the life of the indenture. In addition, under the indenture governing our outstanding senior notes, even if our consolidated fixed charge coverage ratio is 2.00:1 or greater, we cannot make any such restricted payments if doing so will cause our cumulative restricted payments since May 18, 2004 to be greater than the sum of (A) 50.0% of our cumulative consolidated net income since July 1, 2004 (or, if such calculation is a loss, minus 100.0% of such loss) and (B) 100.0% of the net cash proceeds received from any issuance or sale of our capital stock since July 1, 2004 and certain other amounts. As of December 31, 2005, this covenant prevented us from making restricted payments in excess of \$36.2 million. Although we have not made any restricted payments since May 18, 2004, we cannot be sure if, when or to what extent the covenants in the indenture will prevent us from making restricted payments in the future.

In addition, our LaBranche & Co. LLC subsidiary has approximately \$9.0 million principal amount outstanding subordinated indebtedness. The note purchase agreement governing this subordinated indebtedness requires LaBranche & Co. LLC to comply with certain financial ratios. LaBranche & Co. LLC's ability to comply with these ratios may be affected by events beyond our or its control. If any of the covenants in this agreement are breached, or if LaBranche & Co. LLC is unable to comply with required financial ratios, we or it may be in default under such agreements. A significant portion of this indebtedness then may become immediately due and payable.

We are not certain whether we would have, or be able to obtain, sufficient funds to make required accelerated payments under our indebtedness, including payments on our outstanding senior notes.

*We may not be able to generate sufficient cash flows to meet our debt service obligations, including payments on the outstanding senior notes.*

Our ability to generate sufficient cash flows from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be, to an extent, subject to general economic, financial, competitive, regulatory and other factors that are beyond our control.

We cannot provide assurance that our business will generate sufficient cash flows or that future borrowings will be available to us in an amount sufficient to enable us to pay our debt, including the outstanding senior notes, or to fund our other liquidity needs. If our future cash flows from operations are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to sell assets, obtain additional equity capital or restructure or

refinance all or a portion of our debt, including the outstanding senior notes, on or before maturity. We cannot assure you that we will be able to repay or refinance our debt, including the outstanding senior notes, on a timely basis or on satisfactory terms, if at all.

*We may not be able to finance a change of control offer required by the indenture governing the outstanding senior notes.*

If we were to experience a change of control, we would be required to offer to repurchase all outstanding senior notes then-outstanding, as well as all of our then-outstanding 12.0% senior subordinated notes due 2007, in the aggregate principal amount of approximately \$13.6 million (the 2007 notes ), in each case at a price equal to 101.0% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. This purchase requirement may delay or make it harder for others to obtain control of us. If a change of control were to occur, it is possible that we would not have sufficient funds to repurchase these notes or that restrictions in the credit agreement and LaBranche & Co. LLC's subordinated note purchase agreements and such other notes would not allow such repurchases. If we do not have sufficient funds at the time of a repurchase obligation or cannot meet any obligations under the credit agreement, the subordinated note purchase agreements, the indenture governing the outstanding senior notes, or the indenture governing the 2007 notes, we would be forced to seek additional third-party financing. However, it is possible that we would not be able to obtain such financing on favorable terms, or at all.

*Our success depends on our ability to accurately process and record our transactions, and any failure to do so could subject us to losses.*

Our specialist, market-making and clearing and execution activities require us to accurately record and process a very large number of transactions on a daily basis. Any failure or delay in recording or processing transactions could cause substantial losses for brokers, their customers and/or us and could subject us to claims for losses. We rely on our staff to operate and maintain our information and communications systems properly, and we depend on the integrity and performance of those systems. Our recording and processing of trades is subject to human and processing errors. Moreover, extraordinary trading volume or other events could cause our information and communications systems to operate at an unacceptably low speed or even fail. Any significant degradation or failure of our information systems or any other systems in the trading process could cause us to fail to complete transactions or could cause brokers who place trades through us to suffer delays in trading.

Any information or communication systems failure or decrease in information or communications systems performance that causes interruptions in our operations could have an adverse effect on our business, financial condition and/or operating results. Our systems may fail as a result of a hardware, software, power or telecommunications failure. In addition, our offices are located in close proximity to the site of the September 11, 2001 terrorist attacks on the World Trade Center. The aftermath of the attacks on the World Trade Center required us to close our operations and temporarily operate from our disaster recovery site. The NYSE also was forced to stop operating for four consecutive trading days, which caused our operations to halt. It is possible that additional terrorist attacks or acts of war may occur in the future and that such

attacks could compromise or disable our systems. Although we have established back-up disaster recovery centers in New Jersey and New York and have an overall business continuity plan in the event of another disaster, these measures may not be effective in preventing an interruption of our business.

We also are dependent on the proper and timely function of complex information and communications systems maintained and operated by or for the NYSE, the AMEX and clearing and depository institutions. Failures or inadequate or slow performance of any of these systems could adversely affect our ability to operate and complete trades. The failure to complete trades on a timely basis could subject us to losses and claims for losses of brokers and their customers.

*Our future success will depend on the ability to upgrade information and communications systems, and any failure to do so could harm our business and profitability.*

The development of complex communications and new technologies, including Internet-based technologies, may render our existing information and communications systems outdated. In addition, our information and communications systems must be compatible with those of the NYSE and the AMEX. As a result, when and if the NYSE or the AMEX upgrades its systems, we will need to make corresponding upgrades. Our future success will depend on our ability, on a cost-effective basis, to timely respond to changing technologies. Our failure to do so could have an adverse effect on our business, financial condition and/or operating results.

The NYSE's ability to develop information and communications systems and complex computer and other technology systems has been instrumental in its growth and success. We are dependent on the continuing development of technological advances by the NYSE and the AMEX, a process over which we have no control. If the NYSE for any reason is unable to continue its history of computer-related and other technological developments and advances, it could have an adverse effect on the success of the NYSE, including its ability to grow, to manage its trading volumes and to attract new listings. Any such developments can be expected to adversely affect our operations, financial condition and operating results.

*If we lose the services of our key personnel or cannot hire additional qualified personnel, our business will be harmed.*

Our future success depends on the continued service of key employees, particularly George M.L. LaBranche, IV, our Chairman, Chief Executive Officer and President. The loss of the services of any of our key personnel or the inability to identify, hire, train and retain other qualified personnel in the future could have an adverse effect on our business, financial condition and/or operating results. Competition for key personnel and other highly qualified management, trading, compliance and technical personnel is intense. We cannot assure you that we will be able to attract or retain highly qualified personnel in the future.

Our current and prospective employees may experience uncertainty about their future roles with us and our business prospects. This uncertainty may adversely affect our ability to attract and retain key personnel, which would adversely affect our business and results of operations.

*We may have difficulty successfully managing our growth.*

Our business has grown since 1997, primarily due to acquisitions and organic growth through the continued expansion of our specialist and market-making operations. The growth of our business has increased the demands upon our management and operations. This growth has required, and will continue to require, an increase in investment in management personnel, financial and management systems and controls and facilities. The scope of procedures for assuring compliance with applicable rules and regulations, including the Sarbanes-Oxley Act of 2002, has changed as the size and complexity of our business has increased. In response, we have implemented formal compliance procedures that are regularly updated. Our future operating results will depend on our ability to continue:

to improve our systems for operations, financial control and communication and information management;

to refine our compliance procedures and enhance our compliance oversight;

to raise additional capital if and when needed;

to effectively deploy assets, capital or workforce;

to maintain strong relationships with, and attract new, listed companies; and

to retain and incentivize our employees.

*Three of our current or former executive officers are in a position to substantially control matters requiring a stockholder vote.*

Certain of our current and former managing directors who currently own a significant amount of our outstanding common stock have entered into a stockholders' agreement under which they have agreed, among other things, that their shares of our common stock will be voted, for as long as they own their shares, as directed by a majority vote of George M.L. LaBranche, IV, our Chairman, Chief Executive Officer and President, Alfred O. Hayward, Jr., our executive officer, director and Chief Executive Officer of LaBranche & Co. LLC, and James G. Gallagher, a former executive officer and director. Accordingly, these individuals have the ability to substantially control most matters requiring approval by our common stockholders. These matters include the election and removal of directors and the approval of any merger, consolidation or sale of all or substantially all our assets. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control, a merger or consolidation, a takeover or another business combination.



*Risks Associated with the Recently Consummated NYSE Merger*

*The value of the NYSE Group stock we received in the NYSE merger with Archipelago may significantly lose value following the merger.*

In connection with the recently-consummated merger between the NYSE and Archipelago, we received approximately 3.1 million shares of NYSE Group common stock in exchange for our 39 NYSE memberships. Under the merger agreement, there are restrictions on the sale of the NYSE Group shares following the merger. As provided in the agreement, one-third of these NYSE Group shares will be released from these sale restrictions on each of the first three anniversaries of the closing of the merger. Although the agreement allows the NYSE to release these sale restrictions early in a secondary offering, we will only be able to participate in such an offering by selling a small portion of our NYSE Group stock. As a consequence, there is a risk that there could be a significant drop in the value of the NYSE Group stock prior to the time we are able and choose to monetize the consideration we received in exchange for the NYSE memberships we held prior to the NYSE merger. We expect to mark our NYSE Group shares to market, subject to any applicable discounts due to restrictions on transfer. Any substantial drop in the price of NYSE Group stock following the merger could require us to consider whether such drop in value has created an impairment of our intangible assets. Such an impairment, if any, would adversely affect our financial results in a particular fiscal period.

*The regulatory environment following the NYSE merger could change and thereby adversely affect our compliance and strategic efforts.*

As disclosed in connection with the NYSE merger, NYSE Regulation is expected to perform the regulatory function for the NYSE and the Pacific Stock Exchange. In addition, the NYSE Group has proposed that technology play a greater role in trading, compliance and regulation. The NYSE Group also has indicated that NYSE Regulation may be self-funding. It is possible that these factors could cause regulatory or technological errors, especially if NYSE Regulation is unable to adequately self-fund its operations. This environment could produce additional regulatory scrutiny, which could cause us to expend additional resources to monitor and enhance our compliance with NYSE rules. We also may be required to expend substantial resources to coordinate our technological compliance systems with those of the new technological requirements of the NYSE market, which could increase our overall Specialist and Market-Making segment operating expenses and adversely affect our operating results.

*The role of the specialist on the NYSE may substantially change following the merger and we may not be able to timely adapt.*

Although senior NYSE officials have continued to publicly state that there will continue to be an auction market with a central point of sale on the NYSE following the merger, and that specialists will continue to play an integral role in making a fair and orderly market and providing liquidity, there is speculation that large issuers' stocks will trade entirely electronically with minimal participation by specialists. We may not be able to anticipate or adequately and effectively deploy capital, workforce and technology to respond to such a change. Although we have expended considerable resources to enable us to adapt to such a situation, we may not be able to timely or successfully do so. Any failure by us to anticipate, respond or adapt to a

changing NYSE Market following the merger could adversely affect our results of operations and financial condition.

*The NYSE Group may not achieve the anticipated cost savings, technology improvements, growth opportunities and other benefits anticipated from the transaction, which could adversely affect the operations of the NYSE specialist firms following the merger.*

Some of the stated purposes of the NYSE's merger with Archipelago are the cost savings, the ability to compete with an increasingly electronic marketplace, potential market growth opportunities and other synergies. Prior to the merger, the NYSE and Archipelago operated as separate companies with different goals, technology, infrastructures and market structures. The success of the NYSE merger will depend, in part, on the ability to achieve these cost savings, efficiencies and technological and product advances. If the NYSE Group is not able to successfully achieve these objectives, the anticipated cost savings, technological and revenue growth and synergies may not be realized fully or at all, or may take longer to realize than expected. In such event, the new NYSE Market may lose listed companies, exchange-based trading market share and additional product lines and order flow. To the extent the NYSE Market is unable to attract new listed companies or products or loses existing listed companies and products, our financial results and operations could be materially adversely affected.

Item 1B.

## **UNRESOLVED STAFF COMMENTS.**





None.

Item 2.

## **PROPERTIES.**



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Our offices are located at One Exchange Plaza, New York, New York, where we lease approximately 36,000 square feet under two separate leases expiring in January 2008, and at 120 Broadway, New York, New York, where we lease approximately 45,000 square feet under a sublease expiring in March 2006. We are in the process of negotiating a short-term extension for the space at 120 Broadway while we are seeking alternative office space for a portion of our operations. We also lease five trading posts on the floor of the NYSE, approximately 8,600 square feet of additional space at locations in New York, New Jersey, Boston and Minnesota under leases expiring between March 2006 and September 2012. In addition, we lease approximately 1,000 square feet in Amsterdam, The Netherlands, under a lease expiring in April 2009, a workstation (approximately 25 square feet) in London, England, under a month-to-month operating lease, and a three year new lease with approximately 133 square meters in Hong Kong under a lease expiring in November 2008. We believe that our current leased space is suitable and adequate for the operation of our business as presently conducted and as contemplated to be conducted in the near future.

Item 3.

## **LEGAL PROCEEDINGS.**



Specialist Trading Investigations. On March 30, 2004, LaBranche & Co. LLC and other NYSE specialist firms entered into agreements with the SEC and NYSE to settle the SEC and NYSE investigations concerning alleged improper specialist trading practices by specialists on the NYSE. Pursuant to the settlement, LaBranche & Co. LLC consented, without admitting or

denying any wrongdoing, to an SEC order instituting administrative cease-and-desist proceedings, making findings, and imposing remedial sanctions and a cease-and-desist order. The SEC's findings, neither admitted nor denied, included violations by LaBranche & Co. LLC of Section 11(b) of the Exchange Act and Rule 11b-1 promulgated thereunder, NYSE Rules 104, 92, 123B, 401 and 342, and Section 15(b)(4)(E) of the Exchange Act. The Section 15(b)(4)(E) finding includes a failure reasonably to supervise individual specialists who, the finding states, violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder with respect to transactions in six particular stocks. Pursuant to the settlement, LaBranche & Co. LLC paid \$41.6 million in restitution and \$21.9 million in a civil money penalty, which we accrued for the year ended December 31, 2003, in connection with trades that occurred during the years 1999 through 2003 and has agreed to undertakings stated in the SEC's order. Subsequently, we received additional requests for information from the SEC and also have received requests for information from the United States Attorney's Office for the Southern District of New York as part of an industry-wide investigation relating to activities of NYSE floor specialists in recent years. We cooperated with the requests and will continue to cooperate with any future requests.

On April 12, 2005, criminal and civil charges were announced against a number of individuals employed or formerly employed as specialists at the five largest NYSE specialist firms, including one specialist formerly employed by LaBranche & Co. LLC.

In re LaBranche Securities Litigation. On or about October 16, 2003 through December 16, 2003, nine purported class action lawsuits were filed by purchasers of our common stock in the United States District Court for the Southern District of New York, including Sofran v. LaBranche & Co Inc., et al., No. 03 CV 8201, Semon v. LaBranche & Co Inc., et al., No. 03 CV 8255, Haug v. LaBranche & Co. Inc., et al., No. 03 CV 8265, Labul v. LaBranche & Co Inc., et al., No. 03 CV 8365, Murphy v. LaBranche & Co Inc., et al., No. 03 CV 8462, Strain v. LaBranche & Co Inc., et al., No. 03 CV 8509, Yopp v. LaBranche & Co Inc., et al., No. 03 CV 8783, Ferris v. LaBranche & Co Inc., et al., No. 03 CV 8806, and Levin v. LaBranche & Co Inc., et al., No. 03 CV 8918. On March 22, 2004, the court consolidated these lawsuits under the caption In re LaBranche Securities Litigation, No. 03 CV 8201. The court named the following lead plaintiffs: Anthony Johnson, Clyde Farmer, Edwin Walthall, Donald Stahl and City of Harper Woods Retirement System.

On June 7, 2004, plaintiffs filed a Consolidated Class Action Complaint. On July 12, 2004, plaintiffs filed a Corrected Consolidated Class Action Complaint. Plaintiffs allege that they represent a class consisting of persons and entities that purchased or otherwise acquired our common stock during the period beginning on August 19, 1999 and concluding on October 15, 2003. Plaintiffs allege that we, LaBranche & Co. LLC, and certain of our and/or LaBranche & Co. LLC's past or present officers and/or directors, including George M.L. LaBranche, IV, William J. Burke, III, James G. Gallagher, Alfred O. Hayward, Jr., Robert M. Murphy and Harvey S. Traison, violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act by failing to disclose improper specialist trading. Plaintiffs also allege that Mr. Gallagher violated Section 20A of the Exchange Act and two other of our past or present officers and/or directors, S. Lawrence Prendergast and George E. Robb, Jr., also violated Section 20(a) of the Exchange Act. Plaintiffs seek unspecified money damages, attorneys' fees and reimbursement of expenses.

On December 12, 2005, motions to dismiss were granted in part and denied in part. The court dismissed the Section 10(b) claims in their entirety against Messrs. Burke, Gallagher and Traison, dismissed the Section 10(b) claims for the period August 19, 1999 through December 30, 2001 against Messrs. LaBranche, Murphy and Hayward, and dismissed the Section 20A claim against Mr. Gallagher.

In re NYSE Specialists Securities Litigation. On or about October 16, 2003 through December 16, 2003, four purported class action lawsuits were brought by persons or entities who purchased and/or sold shares of stocks of NYSE listed companies for which LaBranche & Co. LLC and any other NYSE specialist firm acted as specialist, including *Pirelli v. LaBranche & Co Inc., et al.*, No. 03 CV 8264, *Marcus v. LaBranche & Co Inc., et al.*, No. 03 CV 8521, *Empire v. LaBranche & Co Inc., et al.*, No. 03 CV 8935, and the California Public Employees Retirement System (CalPERS) v. The New York Stock Exchange, Inc., et al., No. 03 CV 9968. On March 11, 2004, a fifth action asserting similar claims, *Rosenbaum Partners, LP v. The New York Stock Exchange, Inc., et al.*, No. 04 CV 2038, was filed in the United States District Court for the Southern District of New York by an individual plaintiff who does not allege to represent a class. On May 27, 2004, the court consolidated these lawsuits under the caption *In re NYSE Specialists Securities Litigation*, No. CV 8264. The court named the following lead plaintiffs: California Public Employees Retirement System ( CalPERS ) and Empire Programs, Inc.

On September 15, 2004, plaintiffs filed a Consolidated Complaint for Violation of the Federal Securities Laws and Breach of Fiduciary Duty alleging that they represent a class consisting of all public investors who purchased and/or sold shares of stock listed on the NYSE from October 17, 1998 to October 15, 2003. Plaintiffs allege that we, LaBranche & Co. LLC, Mr. LaBranche, and other NYSE specialist firms and their respective parents and affiliates violated Section 10(b), Rule 10b-5 and Section 20(a) by failing to disclose improper specialist trading, improperly profiting on purchases and/or sales of NYSE-listed securities and breaching and/or aiding and abetting breaches of fiduciary duty. Plaintiffs also name the NYSE as a defendant. Plaintiffs seek unspecified money damages, restitution, forfeiture of fees, commissions and other compensation, equitable and/or injunctive relief, including an accounting of and the imposition of a constructive trust and/or asset freeze on trading proceeds, and attorneys fees and reimbursement of expenses.

On December 12, 2005, defendants motion to dismiss was granted in part and denied in part. The court dismissed plaintiffs Section 10(b) and Section 20(a) claims against all defendants for conduct that occurred before January 1, 1999 and dismissed plaintiffs breach of fiduciary duty claims against all defendants. The court also dismissed all claims against the NYSE and certain claims against certain parents and affiliates of specialists other than LaBranche & Co. LLC.

On February 2, 2006, plaintiffs filed an Amended Consolidated Complaint for Violation of the Federal Securities Laws and Breach of Fiduciary Duty, adding Robert A. Martin as a plaintiff. This complaint is otherwise identical to plaintiffs Consolidated Complaint for Violation of the Federal Securities Laws and Breach of Fiduciary Duty.

Henik/Lewis. On or about February 1, 2005 and March 30, 2005, two purported shareholder derivative actions, *Henik v. LaBranche, et al.*, No. 05 CV 1087 and

Lewis v. LaBranche, et al., No. 05 CV 3165, were filed by Diane Henik and Guy C. Lewis, who purport to be two of our shareholders, and who purport to act on behalf of us, against certain of our past or present directors and officers, including Messrs. LaBranche, Burke, Dooley, Gallagher, George, Hayward, Kiernan, Murphy, Prendergast, Robb and Traison and Ms. Filter, in the United States District Court for the Southern District of New York. On April 15, 2005, the Henik and Lewis actions were consolidated. On June 14, 2005, the plaintiffs filed an amended consolidated complaint. The amended complaint alleges breaches of fiduciary duty by the defendants in the case (other than Ms. Filter, who is not named in the amended complaint) arising out of alleged improper specialist trading and violations of NYSE rules by LaBranche & Co. LLC. According to plaintiffs, the defendants engaged in numerous acts, and on some occasions, failed to act, both of which caused LaBranche to suffer damages, were extremely reckless with respect to LaBranche's internal controls, its corporate governance practices, and their own formal oversight responsibility, it [is] likely that some or all defendants actually directed, knew of, acquiesced after the fact, or could have easily discovered the alleged improper trading, there were numerous red flags . . . that were deliberately ignored that suggest that the Board actually knew of the misconduct alleged herein or that could have alerted a conscientious director that something was amiss, and that the defendants either knowingly breached their fiduciary duties to LaBranche and its shareholders, or at the very least, engaged in extremely reckless conduct which also was a breach of fiduciary duties. Plaintiffs seek unspecified money damages, attorneys' fees and reimbursement of expenses.

Sternlicht. On or about November 14, 2005, a purported shareholder derivative action, Sternlicht v. LaBranche et al., No. 05-604042, was filed by Ludwig Sternlicht, who purports to be one of our stockholders, and who purports to act on behalf of us, against certain of our past or present directors and officers, including Messrs. LaBranche, Burke, Dooley, Gallagher, George, Hayward, Kiernan, Murphy, Prendergast, Robb and Traison, in the Supreme Court of the State of New York, County of New York. The allegations and relief sought in this action are substantially the same as the allegations and relief sought in the Henik action.

Last Atlantis, Rule and Martin. On January 20, 2004, six entities that allege that they are purchasers and sellers of options commenced an action in the United States District Court for the Northern District of Illinois, Last Atlantis Capital LLC v. Chicago Board Options Exchange, Inc., et al., No. 04 C 0397, against four national securities exchanges (the American Stock Exchange, the Chicago Board Options Exchange, the Philadelphia Stock Exchange and Pacific Exchange) and 35 alleged securities brokers and/or dealers, including our LSP subsidiary, who, plaintiffs allege, made markets in options on the named exchanges. Plaintiffs allege that we and LSP conspired with other defendants by allegedly failing to execute orders, canceling orders, and refusing to cancel orders allegedly submitted by plaintiffs for the purchase and sale of options. Plaintiffs allege violations of federal antitrust laws (Sections 1 of the Sherman Act), and securities law (Section 10(b) of the Exchange Act and Rule 10b-5), breach of contract, common law fraud, breach of fiduciary duty, violations of an Illinois consumer fraud and deceptive business practices statute, and tortious interference with plaintiffs' business. Injunctive relief and damages (including punitive damages) in an unspecified amount are sought.

On January 28, 2005, Bryan Rule, an individual represented by the same counsel who represent the plaintiffs in the Last Atlantis case, commenced a substantially similar action in the United States District Court for the Northern District of Illinois, Rule v. Chicago Board Options





Exchange, Inc., et al., No. 05 CV 0539, making substantially the same allegations and seeking the same relief against the same defendants, including LSP and us.

On March 30, 2005, the court dismissed the Last Atlantis action. On April 13, 2005, plaintiffs in the Last Atlantis action filed a motion for reconsideration. On May 9, 2005, the court denied plaintiffs' motion for reconsideration with respect to their antitrust claims but granted plaintiffs leave to seek to re-assert their securities law claims (Section 10(b) of the Exchange Act and Rule 10b-5). On June 9, 2005, the court clarified its ruling on the motion for reconsideration and granted plaintiffs leave to seek to re-assert their breach of contract, common law fraud, breach of fiduciary duty, Illinois consumer fraud and deceptive business practices statute and tortious interference with plaintiffs' business claims.

On June 1, 2005, plaintiffs filed an amended complaint asserting securities law (Section 10(b) of the Exchange Act and Rule 10b-5), breach of contract, common law fraud, breach of fiduciary duty, Illinois consumer fraud and deceptive business practices statute and tortious interference with plaintiffs' business claims. Despite the court's ruling on the motion for reconsideration, plaintiffs' amended complaint also asserted federal antitrust law claims (Section 1 of the Sherman Act).

On June 24, 2005, plaintiffs filed a motion for leave to file a second amended complaint, which does not include antitrust claims, but does assert securities law (Section 10(b) of the Exchange Act and Rule 10b-5), breach of contract, common law fraud, breach of fiduciary duty, Illinois consumer fraud and deceptive business practices statute, tortious interference with plaintiffs' business, and tortious interference with contracts claims, and purports to join Mr. Rule and River North Investors LLC as plaintiffs.

On July 15, 2005, the Court dismissed the Rule action due to plaintiffs' failure to serve process on the defendants in the matter.

On September 28, 2005, Mr. Rule and River North Investors LLC, who, as stated above, now are plaintiffs in the Last Atlantis action, commenced an action in the United States District Court for the Northern District of Illinois, Rule et al. v. Chicago Board Options Exchange, Inc., et al., No. 05 C 5600. The complaint in this action is substantially similar to the second amended complaint in the Last Atlantis action, making substantially the same allegations and seeking the same relief against the same defendants, including LSP and us, except that the complaint in this action also asserts a federal antitrust law claim (Section 1 of the Sherman Act). Mr. Rule and River North Investors are proceeding pursuant to what the court has described as a stipulation that their antitrust law claims have been dismissed on the same basis as the antitrust law claims were dismissed in the Last Atlantis action.

On September 30, 2005, Brad Martin commenced an action in the United States District Court for the Northern District of Illinois, Martin v. Chicago Board Options Exchange, Inc., et al., No. 05 C 5671. The complaint in this action is substantially similar to the second amended complaint in the Last Atlantis action and the complaint in the Rule action, making substantially the same allegations and seeking the same relief against the same defendants, including LSP and us, except that the complaint in this action, like the complaint in the Rule action, also asserts a federal antitrust law claim (Section 1 of the Sherman Act). Mr. Martin is proceeding pursuant to

what the court has described as a stipulation that their antitrust law claims have been dismissed on the same basis as the antitrust law claims were dismissed in the Last Atlantis action.

On October 4, 2005, the court granted the plaintiffs' motion for leave to file a second amended complaint in the Last Atlantis action and to join Mr. Rule and River North Investors LLC as plaintiffs. On October 5, 2005, the second amended complaint was filed.

On November 10, 2005, the court consolidated into the Last Atlantis action, the Rule and River North Investors LLC action that was commenced on September 28, 2005 (No. 05 C 5600) and the Martin action that was commenced on September 30, 2005 (No. 05 C 5671).

EEOC/Servidio Litigation. On September 27, 2005, the Equal Employment Opportunity Commission (the EEOC) commenced an action in the United States District Court for the Southern District of New York, EEOC v. LaBranche & Co Inc., No. 05 CV 8304, on behalf of Peter Servidio, a former employee of LaBranche & Co. LLC. The complaint in this action alleges that we harassed and discriminated against Mr. Servidio on the basis of a disability, retaliated against him for complaining about the alleged harassment and constructively discharged him. The complaint seeks injunctive relief and monetary damages, including reinstatement, back pay and front pay.

On September 28, 2005, Mr. Servidio moved to intervene in the action. Mr. Servidio's complaint adds Mr. Hayward and our former senior managing director of floor operations, Anthony Corso, as defendants, and also adds claims under the New York City Human Rights Law. The allegations in Mr. Servidio's complaint include the allegations in the EEOC's complaint and also allege that Mr. Servidio was not promoted due to his disability. The EEOC complaint seeks (i) unspecified compensation for past and future pecuniary and non-pecuniary losses resulting from the alleged discrimination, (ii) an order enjoining discrimination on the basis of disability; and (iii) an order requiring institution and enforcement of policies providing equal employment opportunities for qualified individuals with disabilities. Mr. Servidio's complaint seeks unspecified compensatory damages, punitive damages, other affirmative relief, costs and attorneys' fees.

NASD/AMEX Notice of Disciplinary Action. On December 15, 2004, LaBranche & Co. LLC received a notice from the NASD Amex Regulation Division stating a preliminary determination has been made by the NASD Amex Regulation Division's staff to seek disciplinary action against LaBranche & Co. LLC for violations of certain federal securities laws and the Amex Constitution and Rules, including Sections 10(b), 9A and 17(a) of the Exchange Act, in connection with manual book freezes effected in one of LaBranche & Co. LLC's Amex specialist stocks during the period March 8, 2004 through October 21, 2004. Prior to receiving this notice, we had determined that the individual specialist responsible for the book freezes failed to adhere to company policy and had terminated that employee. We have submitted a response to the staff of the NASD Amex Regulation Division setting forth the reasons why disciplinary action should not be brought against LaBranche & Co. LLC and we are cooperating with the NASD Amex Regulation Division in this matter.

We believe that the claims asserted against us by the plaintiffs in the pending proceedings described above are without merit, and we deny all allegations of wrongdoing. There can be no



assurance, however, as to the outcome or timing of the resolution of these proceedings. We therefore are unable to estimate the amount or potential range of any loss that may arise out of these proceedings. The range of possible resolutions could include determinations and judgments against us or settlements that could require substantial payments by us that could have a material adverse effect on our financial condition, results of operations and cash flows.

In addition to the proceedings described above, we and our operating subsidiaries have been the target, from time to time, of various claims, lawsuits and regulatory actions incidental to the ordinary course of our and their respective businesses. While the ultimate outcome of those claims, lawsuits and regulatory actions which currently are pending cannot be predicted with certainty, we believe, based on our understanding of the facts of these claims, proceedings and regulatory actions, that their ultimate resolution will not, in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**



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There were no matters submitted to a vote of security holders during the fourth quarter of our fiscal year ended December 31, 2005.

**PART II**

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





**Market Information**



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Our common stock is quoted on the NYSE under the symbol LAB. The following table sets forth the range of high and low closing sales prices for our common stock on the NYSE for each fiscal quarter within the two most recent fiscal years:

Provision for income taxes		
Net income	8%	1%
<i>Net Revenue</i>		

	<b>Three Months Ended</b>		<b>%</b>
	<b>March 31,</b>		<b>Change</b>
	<b>2010</b>	<b>2009</b>	
	<b>(dollars in thousands)</b>		
Net revenue	\$ 16,137	\$ 8,771	84%

Our net revenue was \$16.1 million in the three months ended March 31, 2010, as compared to \$8.8 million in the three months ended March 31, 2009, an increase of \$7.3 million or 84%. This increase was primarily attributable to an increase in shipments of our RF receiver products used in digital televisions, automotive displays, PCs and set top box devices for digital terrestrial television, 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, which reflected a phase-out of consumer handset subsidies by Japanese service providers that began in the middle of 2008. A substantial portion of the increase in our digital terrestrial television RF receiver products was attributable to shipments of digital-to-analog converter set top boxes for European end markets, as well as an increase in shipments to the automotive digital television and PCTV markets in Japan. We expect sales of our second-generation global digital terrestrial device to continue to account for a substantial portion of our revenue and revenue growth, if any, as the European market undergoes a multi-year country-by-country conversion from analog to digital television. During 2009, our second-generation digital terrestrial device was successfully adopted by several digital-to-analog television converter set top box makers, principally original device manufacturers in China, for delivery in European end markets. Because some of our products may be deployed in multiple devices or geographic areas and our customers consist principally of distributors who sell our products to end customers, we do not always know how or where our products are deployed.

**Table of Contents***Cost of Net Revenue and Gross Profit*

	Three Months Ended March 31,		% Change
	2010	2009	
	(dollars in thousands)		
Cost of net revenue	\$ 5,158	\$ 3,062	68%
% of net revenue	32%	35%	
Gross profit	10,979	5,709	92%
% of net revenue	68%	65%	

Cost of net revenue and gross profit increased by \$2.1 million and \$5.3 million, respectively, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009, reflecting an increase in gross profit as a percentage of revenue from 65% to 68%. The increase in cost of net revenue was principally due to increased sales of our second-generation global digital television RF receiver product. Cost of net revenue increased at a lesser rate than the increase in net revenue, however, principally as a result of improved unit costs associated with lower silicon die and manufacturing expenses as we transitioned our second generation global digital television RF receiver product to a 0.13 $\mu$  CMOS manufacturing process technology from a 0.18 $\mu$  technology. Lower package and assembly costs due to the choice of a smaller package and reduced test costs due to higher wafer yields were also significant contributors to the decrease in cost of net revenue. The rise in shipments and, to a lesser extent, the reduction in per unit manufacturing cost of the second-generation global digital television RF receiver products resulted in the increase in both the absolute gross profit and the gross profit percentage of net revenue in the three months ended March 31, 2010 compared to the three months ended March 31, 2009. We currently expect that gross profit percentage will fluctuate from quarter to quarter in the future based on changes in product mix, average selling prices, or manufacturing costs.

*Research and Development*

	Three Months Ended March 31,		% Change
	2010	2009	
	(dollars in thousands)		
Research and development	\$ 6,079	\$ 3,863	57%
% of net revenue	38%	44%	

Research and development expense for the three months ended March 31, 2010 was \$6.1 million, an increase of \$2.2 million, or 57%, from the three months ended March 31, 2009. The increase was primarily attributable to an increase in the number of new product development and existing product enhancement initiatives undertaken during 2009, which continued into the first quarter of 2010. These projects and initiatives related primarily to our RF receiver SoC products. Salary and benefits accounted for the largest portion of the increase at \$1.6 million (including \$0.3 million of stock-based compensation expense), reflecting growth in our average full-time-equivalent headcount in the three months ended March 31, 2010 compared to the same period of the prior year. Also contributing to the increase were \$0.2 million of acquired intellectual property and \$0.4 million for supplies, travel and other costs. 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.

*Selling, General and Administrative*

	Three Months Ended March 31,		% Change
	2010	2009	
	(dollars in thousands)		
Selling, general and administrative	\$ 3,527	\$ 1,736	103%
% of net revenue	22%	20%	



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Selling, general and administrative expense for the three months ended March 31, 2010 was \$3.5 million, an increase of \$1.8 million, or 103%, from the three months ended March 31, 2009. The year-to-year 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, the increase was attributable to an additional \$0.7 million of salary and benefit expenses (including \$0.2 million in stock-based compensation), an additional \$0.3 million of increased legal, accounting and other professional expenses, \$0.3 million of distributor and rep sales commissions, \$0.1 million of incremental consulting expenses and \$0.1 million of additional travel-related costs. 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 and as we continue to build our international administrative infrastructure.

*Interest and Other Income (Expense)*

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>	
Interest income	\$ 16	\$ 9
Interest expense	\$ (9)	\$ (17)
Other expense, net	\$ (2)	\$

Interest income increased in the three months ended March 31, 2010 compared to the three months ended March 31, 2009 due to higher cash and investment balances. Interest expense decreased in the three months ended March 31, 2010 compared to the three months ended March 31, 2009 as a result of lower debt balances.

*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 March 31, 2010, we had cash and cash equivalents of \$68.9 million, investments of \$25.6 million, and net accounts receivable of \$8.1 million.

Following is a summary of our working capital and cash and cash equivalents as of March 31, 2010 and December 31, 2009:

	<b>As of</b>	
	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<b>(in thousands)</b>	
Working capital	\$ 87,411	\$ 11,029
Cash and cash equivalents	\$ 68,875	\$ 17,921

*Cash Flows from Operating Activities*

Net cash provided by operating activities was \$2.1 million for the three months ended March 31, 2010. Net cash provided by operating activities primarily consisted of \$1.3 million in net income plus \$1.0 million in non-cash operating expenses less \$0.2 million in net cash used by changes in operating assets and liabilities. Non-cash items included in net income for the three months ended March 31, 2010 included depreciation and amortization expense of \$0.3 million and stock-based compensation of \$0.6 million. Net cash used in operating activities was \$1.4 million for the three months ended March 31, 2009. This primarily consisted of \$0.1 million in net income, and \$0.3 million in non-cash operating expenses offset by \$1.8 million in net cash used by changes in operating assets and liabilities. Non-cash items included in net income for the three months ended March 31, 2009 included depreciation and amortization expense of \$0.2 million and stock-based compensation of \$0.1 million.

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### *Cash Flows from Investing Activities*

Net cash used in investing activities was \$26.8 million for the three months ended March 31, 2010. Net cash used in investing activities consisted of \$25.6 million in purchases of securities, \$0.7 million in purchases of property and equipment and \$0.5 million in purchases of intangibles. Net cash provided by investing activities was \$1.7 million for the three months ended March 31, 2009. Net cash provided by investing activities included \$1.8 million from the sale of securities less \$0.1 million in purchases of property and equipment.

### *Cash Flows from Financing Activities*

Net cash provided by financing activities was \$75.6 million for the three months ended March 31, 2010. Net cash provided by financing activities was primarily due to the net cash provided from our IPO of \$75.6 million.

We believe that our \$68.9 million of cash and cash equivalents and \$25.6 million in investments at March 31, 2010, and expected cash flow from operations will be sufficient to fund our projected operating requirements for at least the next twelve months. However, we may need to raise additional capital or incur additional indebtedness to continue to fund our operations in the future. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our engineering, sales and marketing activities, the timing and extent of our expansion into new territories, the timing of introductions of new products and enhancements to existing products and the continuing market acceptance of our products. Although we currently are not a party to any agreement or letter of intent with respect to potential material investments in, or acquisitions of, complementary businesses, services or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all. If we are unable to raise additional funds when needed, we may not be able to sustain our operations.

### *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 March 31, 2010, we were not involved in any unconsolidated SPE transactions.

### *Contractual Obligations*

There have been no material changes, outside of the ordinary course of business, in our outstanding contractual obligations from those disclosed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as contained in our final prospectus filed by the Company with the Securities and Exchange Commission on March 24, 2010 relating to our Registration Statement on Form S-1/A (File No. 333-162947) for our IPO, except as noted below.

During January 2010, we 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 is scheduled to commence in April 2010 with an option to extend the lease for an additional five years. Future minimum payments under the operating lease for the years ending December 31, 2010, 2011, 2012, 2013, 2014 and 2015 are \$20,000, \$83,000, \$87,000, \$90,000, \$94,000 and \$24,000, respectively.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 MaxLinear Limited is the United States dollar. The functional currency of MaxLinear Shanghai Limited is the local currency. Accordingly, the effects of exchange rate fluctuations on the net assets of MaxLinear Shanghai Limited's 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.





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***Interest Rate Risk***

We had cash of \$68.9 million at March 31, 2010, 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 4. CONTROLS AND PROCEDURES**

***Evaluation of Disclosure and Procedures***

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

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, prior to filing this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer, 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 Quarterly Report. 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 Quarterly Report.

***Changes in Internal Control over Financial Reporting***

An evaluation was performed under the supervision and with the participation of our management, including our principal executive officer, 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 March 31, 2010 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 March 31, 2010 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are subject to threats of litigation or actual litigation in the ordinary course of business, some of which may be material. We believe that there are no currently pending matters that, if determined adversely to us, would have a material effect on our business or that would not be covered by our existing liability insurance maintained by us.

**ITEM 1A. RISK FACTORS**

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

*Before you invest in our securities, you should be aware that our business faces numerous financial and market risks, including those described below, as well as general economic and business risks. The following discussion provides information concerning the material risks and uncertainties that we have identified and believe may adversely affect our business, our financial condition and our results of operations. Before you decide whether to invest in our securities, you should carefully consider these risks and uncertainties, together with all of the other information included in this Quarterly Report on Form 10-Q, the final prospectus we filed on March 24, 2010 in connection with our initial public offering, which contains our financial statements for the year ended December 31, 2009, and in our other public filings.*

**Risks Related to Our Business**

*We depend on a limited number of customers for a substantial portion of our revenue, and the loss of, or a significant reduction in orders from, one or more of our major customers could have a material adverse effect on our revenue and operating results.*

In the three months ended March 31, 2010, two customers accounted for 16% and 14%, respectively, of our net revenue, and our ten largest customers collectively accounted for 75% of our net revenue. During the year ended December 31, 2009, Panasonic, Murata and MTC accounted for 23%, 13% and 12%, respectively, of our net revenue, and our ten largest customers collectively accounted for 83% of our net revenue. Our operating results for the foreseeable future will continue to depend on sales to a relatively small number of customers and on the ability of these customers to sell products that incorporate our RF receivers or RF receiver SoCs. In the future, these customers may decide not to purchase our products at all, may purchase fewer products than they did in the past, or may alter their purchasing patterns. Factors that could affect our revenue from these large customers include the following:

substantially all of our sales to date have been made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty; and

some of our customers have sought or are seeking relationships with current or potential competitors which may affect their purchasing decisions.

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

and adversely affected.

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

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

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

As our products are integrated into a variety of stationary and mobile electronic devices, we compete with suppliers of both can tuners and traditional silicon RF receivers. Our competitors range from large, international companies offering a wide range of semiconductor products to smaller companies specializing in narrow markets and internal engineering groups within mobile device, television and STB manufacturers, some of which may be our customers. Our primary competitors include Analog Devices, Inc., Broadcom Corporation, Entropic Communications, Inc., Maxim Integrated Products, Inc., Microtune, Inc., Newport Media Inc., NXP B.V., Silicon Laboratories Inc. and Xceive Corporation. We expect competition in the markets in which we participate to increase in the future as existing competitors improve or expand their product offerings. In addition, we believe that a number of other public and private companies are in the process of developing competing products for digital television and other broadband communication applications. Because our products often are building block semiconductors which provide functions that in some cases can be integrated into more complex integrated circuits, we also face competition from manufacturers of integrated circuits, some of which may be existing customers that develop their own integrated circuit products.

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

*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, 2009, a substantial majority of our revenue was attributable to demand for our products in the consumer market, consisting principally of sales of products ultimately incorporated in digital to analog converter boxes for sale to consumers in the European Union. For the three months ended March 31, 2010, sales of products for European converter boxes continued to represent a significant portion of our revenues, and demand for our RF receiver products used in Digital Terrestrial Television, or DTTV, applications, including digital televisions, automotive navigation displays, and PCTV, also accounted for a significant portion of our revenue. We expect a significant portion of our revenue in future periods to continue to depend on the demand for DTTV applications in Europe and Japan. In contrast to the United States, where the transition from analog to digital television occurred on a national basis in June 2009, in Europe the digital transition is being phased in on a local and regional basis and is expected to occur over several years. Most countries in Western Europe are expected to convert completely to digital television by 2012, with the transition in Eastern Europe expected to continue through 2015. Similarly, in Japan, there is a government mandate to completely switch off analog TV transmissions by 2012. 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 did not take place or were substantially delayed in Europe or other international markets, our business, revenue, operating results and financial condition would be materially and adversely affected.

*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



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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, automotive TV display and mobile electronic devices in Japan, and to Chinese manufacturers of set top boxes for sale in the European market. 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, particularly in markets for cable set top boxes, automotive entertainment, set top boxes for internet protocol television, or IPTV, and digital television on personal computers, or PCTV. 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.

In the future, we expect cable 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 Thomson S.A. These OEMs are large, multinational corporations with substantial negotiating power relative to us. Securing design wins with any of these companies will require 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 new, still developing 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.

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.

*To date, a significant portion of our revenue has been attributable to demand for our products in markets for mobile electronic devices and the growth of these overall markets. These markets may not grow and develop in ways that we currently expect and are subject to substantial regulatory and market risks, any of which could have a material adverse effect on our business, revenue and operating results.*

Sales of our products to customers in the mobile electronic device market accounted for a significant portion of our revenue in prior periods. The development of the market for mobile digital television will depend, among other factors, on regulatory decisions concerning adoption of mobile digital television standards, decisions by regulators and service providers concerning mobile television product offerings and agreements between service providers and content providers relating to economic aspects of mobile digital television broadcasts. Predicting how the global market for mobile digital television will develop is difficult because it is relatively new and subject to substantial regulatory and market risks, which vary from country to country.

Because of differences in international broadcast standards, government regulations and incentive structures, we expect substantial differences in the development of mobile television markets across different geographic markets. Major geographic markets have selected different broadcast standards and, once a standard is chosen, substantial infrastructure changes may be required to implement the standard and make mobile television generally available. We believe that it is unlikely that many service providers will commit to make mobile digital television available before a standard is selected and an implementation schedule established for their geographic service markets. In March 2008, the EU endorsed its standard for digital television, DVB-H; however, this spectrum is not yet available in all EU member countries. In October 2009, North America adopted ATSC-M/H, which is also referred to as A/153, as a digital mobile broadcast standard. Implementation of both DVB-H and ATSC-M/H will require substantial infrastructure improvements.

In addition to risks relating to standard-setting, we also expect governmental regulation of the pricing and content of mobile broadcasting and business decisions by service providers and content providers to have a material impact on the development of individual markets for mobile electronic devices. In 2009 and 2008, substantially all of the digital mobile television revenue was attributable to the Japanese market. From April 2006 until the end of March 2008, the Japanese government required that digital television programs broadcast on terrestrial digital television also be offered free of charge to the Japanese consumers on their mobile handsets. Moreover, until recently, Japanese service providers implemented pricing structures that subsidized the purchase of new





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handheld devices. In contrast, the European market has been characterized by subscription-based mobile digital television services, resulting in slower consumer adoption rates. Development of the European market has also been adversely affected by delays in agreements between service providers and content providers concerning the economic terms on which service providers will make these broadcasts available to subscribers. In China, conditional access issues relating to government control of content availability may limit the development of its mobile digital television market.

A portion of our mobile electronics customers supply the automotive entertainment market, which presents distinct risks. We cannot predict whether a substantial market will develop for broadcast digital television in automobiles, or if it does develop, whether we will be able to compete successfully in this market. Moreover, even if a market for broadcast digital television in automobiles does develop, government safety regulations could prohibit or limit the availability of broadcast television in automobiles. In addition, customers in the automotive market establish very demanding specifications for quality, performance and reliability. Minor product defects could damage our reputation in the automobile industry and result in a loss of future sales, even with customers with which we already may have obtained design wins.

As a result, we are unable to predict the timing or direction of the development of mobile digital television markets with any accuracy. In addition, because some of our products are not limited in the devices or geographic areas in which they may be deployed and we sell our products principally to distributors for subsequent sale to end user manufacturers, we cannot always determine with accuracy how, where or into which applications our products are being deployed. Delays in the development of, or unexpected developments in, these markets could have an adverse effect on order activity by mobile device manufacturers and, as a result, on our business, revenue, operating results and financial condition.

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

We do not have our own manufacturing facilities. We operate an outsourced manufacturing business model that utilizes third-party foundry and assembly and test capabilities. As a result, we rely on third-party foundry wafer fabrication and assembly and test capacity, including sole sourcing for many components or products. Currently, all of our products are manufactured by United Microelectronics Corporation, or UMC, at foundries in Taiwan and Singapore. 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,

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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 and Singapore. 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.

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*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. 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. 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 an additional semiconductor fabricator, but this qualification is not complete. Qualification will not occur if we identify a defect in the 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 the 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.

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

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

*Due to our limited operating history and our sell-through revenue recognition policy, we may have difficulty accurately predicting our future revenue and appropriately budgeting our expenses.*

We were incorporated in 2003 and did not begin to generate product revenue until the end of the fourth quarter of 2006. As a result, 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. In addition, because we record revenue from sales when our products are shipped to end customers by our distributors, some of the revenue we record in a quarter may be derived from sales of products shipped to distributors during previous quarters. This revenue recognition policy reduces our ability to forecast quarterly or annual revenue accurately. 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 any future growth effectively.*

We have experienced significant growth in a short period of time. Our net revenue increased from approximately \$31.3 million in 2008 to approximately \$51.4 million in 2009 and increased from approximately \$8.8 million in the three months ended March 31, 2009 to approximately \$16.1 million for the three months ended March 31, 2010. 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.

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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 additional sales personnel and expand sales 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.

*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 an additional 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 substantially all of our products to customers through our distributors, who maintain their own inventories of our products. Sales to distributors accounted for 96% of our net revenue in the year ended December 31, 2009 and 92% of our net revenue in the three months ended March 31, 2010. 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 monthly basis. To date, we believe that this data typically has been accurate. 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

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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

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revenue and margin forecasts above those we were actually able to achieve. These differences may occur in the future, and the adverse impact of these differences between forecasts and actual results could grow if we are successful in selling more products to some customers. In addition, the rapid pace of innovation in our industry could render significant portions of our inventory obsolete. Excess or obsolete inventory levels could result in unexpected expenses or increases in our reserves that could adversely affect our business, operating results and financial condition. Conversely, if we were to underestimate customer demand or if sufficient manufacturing capacity were unavailable, we could forego revenue opportunities, potentially lose market share and damage our customer relationships. In addition, any significant future cancellations or deferrals of product orders or the return of previously sold products due to manufacturing defects could materially and adversely impact our profit margins, increase our write-offs due to product obsolescence and restrict our ability to fund our operations.

*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;

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;

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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.

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

The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. Many of our products originated with our research and development efforts and have provided us with a significant competitive advantage. Our research and development expense was \$14.3 million in 2008, \$19.8 million in 2009 and \$6.1 million in the three months ended March 31, 2010. In 2009, we increased our research and development expenditures as compared to prior periods as part of our strategy of devoting focused research and development efforts on the development of innovative and sustainable product platforms. Although we have reduced research and development spending in connection with the current economic downturn, we are committed to investing in new product development in order to stay competitive in our markets and plan to invest in process development and maintain research and development fabrication capabilities in order to develop manufacturing processes for devices that are invented internally. We do not know whether we will have sufficient resources to maintain the level of investment in research and development required to remain competitive. In addition, we cannot assure you that the technologies which are the focus of our research and development expenditures will become commercially successful.

*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.



*We are subject to warranty claims, product liability and product recalls.*

From time to time, we are subject to warranty or product liability claims 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.

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*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. These problems may also result in claims against us by our customers or others. As a result, our operating costs could be adversely affected.

*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.*

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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;

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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. For example, we are a party to license agreements with Texas Instruments and NEC Electronics relating to demodulator technologies that are licensed specifically for the use in our products for cable set top boxes and mobile television handsets for the ISDB-T segment market in Japan and South America, respectively. 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.*

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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.

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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 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.

*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 99% our net revenue in the year ended December 31, 2009 and 96% of our net revenue in the three months ended March 31, 2010. Sales to end customers in Japan accounted for 54% of our net revenue in the year ended December 31, 2009 and 50% of our net revenue in the three months ended March 31, 2010. In addition, approximately 17% of our employees are located outside of the United States, including 29 in Asia and one in Europe. All of our products are manufactured, assembled and tested in Asia, and all of our major distributors are located in Asia. Multiple factors relating to our international operations and to particular countries in which we operate could have a material adverse effect on our business, financial condition and results of operations. These factors include:

changes in political, regulatory, legal or economic conditions;

restrictive governmental actions, such as restrictions on the transfer or repatriation of funds and foreign investments and trade protection measures, including export duties and quotas and customs duties and tariffs;

disruptions of capital and trading markets;

changes in import or export licensing requirements;

transportation delays;

civil disturbances or political instability;

geopolitical turmoil, including terrorism, war or political or military coups;

public health emergencies;

differing employment practices and labor standards;

limitations on our ability under local laws to protect our intellectual property;

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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.

Substantially all of our products are manufactured 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, we were recently 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 UMC foundries that manufacture all of our wafers are located in Taiwan and Singapore, 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, California, Taiwan, Singapore or Shanghai facilities would materially and adversely affect our business.

*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.

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*We have identified deficiencies in our internal control over financial reporting in the past. If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.*

In connection with the audit of our consolidated financial statements for the year ended December 31, 2008, we, together with our independent registered public accounting firm, identified a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness related to our lack of staffing of personnel that oversee our financial statement close process. Specifically, we determined that we did not have accounting personnel with a sufficient level of technical expertise to provide required oversight for our accounting and financial reporting functions. For example, we did not have either a controller or director of financial reporting.

We have taken steps intended to remediate this material weakness, primarily through the hiring of additional accounting and finance personnel with technical accounting and financial reporting experience. In particular, during 2009 we increased the size and expertise of our accounting staff. We are, however, still in the process of recruiting additional personnel and continue to rely on consultants within our finance organization. We are currently recruiting a Chief Financial Officer, and when he or she is retained, our current Vice President, Finance and Treasurer will assume full-time responsibility for treasury and financial planning functions. We are also recruiting a consultant to act as an internal auditor. In December 2009, we hired a full-time controller, who also serves as our Chief Accounting Officer and in April 2010 we hired a person responsible for SEC reporting. As a result of the additional finance staff hired during 2009, we determined that the material weakness that existed as of December 31, 2008 had been remediated.

Any inability to recruit and retain the finance personnel we require would have an adverse impact on our ability to accurately and timely prepare our financial statements. We may be unable to locate and hire qualified finance professionals with requisite technical and public company experience when and as needed. In addition, new employees will require time and training to learn our business and operating processes and procedures. If our finance and accounting organization is unable for any reason to respond adequately to the increased demands that will result from being a public company, the quality and timeliness of our financial reporting may suffer, which could result in the identification of material weaknesses in our internal control. Any consequences resulting from inaccuracies or delays in our reported financial statements could have an adverse effect on the trading price of our Class A common stock as well as an adverse effect on our business, operating results and financial condition.

If we fail to enhance our internal control over financial reporting to meet the demands that will be placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, we may be unable to report our financial results timely and accurately and prevent fraud. The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure. In particular, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act. We expect to incur significant expense and devote substantial management effort toward ensuring compliance with Section 404.

If we are not able to comply with the requirements of Section 404 in a timely manner, or if we fail to remedy any material weakness and maintain effective internal control over our financial reporting in the future, our financial statements may be inaccurate, our ability to report our financial results on a timely and accurate basis may be adversely affected, our access to the capital markets may be restricted, the trading price of our Class A common stock may decline and we may be subject to sanctions or investigation by regulatory authorities, including the SEC or the New York Stock Exchange, or the NYSE. We may also be required to restate our financial statements from prior periods.

*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.

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*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 March 31, 2010, our founders, executive officers, directors and their affiliates beneficially owned, in the aggregate, approximately 72% of our Class B common stock, representing approximately 92% 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 30% of our outstanding Class B common stock, representing approximately 37% 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 35% of our outstanding common stock is collectively owned by investment funds affiliated with U.S. Venture Partners, Battery Ventures and Mission Ventures. Representatives of U.S. Venture Partners, Battery Ventures and Mission Ventures are directors of MaxLinear. Together with these funds, 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.

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*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.

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*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.

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*Our share price may be volatile and you may be unable to sell your shares at or above the offering price, if at all.*

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.

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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 Quarterly Report on Form 10-Q 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;

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the expiration of contractual lock-up agreements with our executive officers, directors and stockholders; and

general economic and market conditions.

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

*If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, especially due to our dual-class voting structure, our share price and trading volume could decline.*

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

*Of our total outstanding shares, 23,823,147 shares, or 76%, will be restricted from immediate resale but may be sold into the market in the near future. 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



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of additional equity securities. As of March 31, 2010, we had 7,410,714 shares of Class A common stock and 23,823,147 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. 23,823,147 shares of Class B common stock outstanding, based on shares outstanding as of March 31, 2010, will be restricted as a result of securities laws, lock-up agreements or other contractual restrictions that restrict transfers for at least 180 days after the date of the closing of our initial public offering, which is September 25, 2010, subject to certain extensions.

The underwriters of our initial public offering may, in their sole discretion, release all or some portion of the shares subject to lock-up agreements prior to expiration of the lock-up period.

The holders of 13,034,896 shares of Class B common stock, or 41.7% of our total outstanding common stock, will be entitled to rights with respect to registration of these shares under the Securities Act pursuant to a registration rights agreement. In addition, upon exercise of outstanding options by our executive officers and certain other employees, our executive officers and those other employees will be entitled to rights with respect to registration of the Class B common stock acquired on exercise. 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 a registration statement on Form S-8 under the Securities Act to register 9,877,133 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 a 180-day lock-up period and 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.



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*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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*****Recent Sales of Unregistered Securities***

From January 1 to March 24, 2010, we granted stock options to purchase 208,692 shares of our Class B common stock at exercise prices of \$8.72 to \$9.18 per share to our employees and consultants under our 2004 Stock Plan. From January 1 to March 24, 2010, we issued and sold an aggregate of 51,270 shares of our Class B common stock to our employees and consultants at prices of \$0.23 to \$4.26 per share for an aggregate of \$65,384 pursuant to exercises of options granted under our 2004 Stock Plan.

The sales and issuances of securities in the transactions described above were deemed to be exempt from registration under the Securities Act of 1933, as amended, in reliance upon Rule 701 promulgated under Section 3(b) of the Securities Act of 1933, as amended, as transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of securities in each transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. All recipients had adequate access, through employment or other relationships, to information about us. All certificates representing the securities issued in these transactions included appropriate legends setting forth that the securities had not been offered or sold pursuant to a registration statement and describing the applicable restrictions on transfer of the securities. There were no underwriters employed in connection with any of the transactions set forth above.

***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 March 23, 2010, which registered an aggregate of 7,410,714 shares of our Class A common stock, including 966,614 shares that the underwriters had the option to purchase to cover over-allotments. On March 29, 2010, 5,919,528 shares of Class A common stock were sold on our behalf, including 771,469 shares sold by us upon exercise in full of the underwriters' over-allotment options, and 1,491,186 shares of Class A common stock were sold on behalf of the selling stockholders, including 195,145 shares sold by the selling stockholders upon exercise in full of the underwriters' over-allotment option, at an initial public offering price of \$14.00 per share, for an aggregate gross offering price of \$82,873,392 to us, and \$20,876,604 to the selling stockholders. The underwriters of the offering were Morgan Stanley & Co. Incorporated, Deutsche Bank Securities Inc., UBS Securities LLC, Thomas Weisel Partners LLC and Needham & Company, LLC. Following the sale of the shares in connection with the closing of the IPO, the offering terminated.

We paid to the underwriters underwriting discounts and commissions totaling approximately \$5.8 million in connection with the offering. In addition, we incurred additional costs of approximately \$4.2 million in connection with the offering, which when added to the underwriting discounts and commissions paid by us, amounts to total fees and costs of approximately \$10.0 million. Thus, the net offering proceeds to us, after deducting underwriting discounts and commissions and offering costs, were approximately \$72.9 million. No offering costs were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates, other than reimbursement of legal expenses for selling.

As of March 31, 2010, we had invested \$72.9 million of net proceeds from the offering in commercial paper, corporate debt securities, government securities and government agency securities with the balance of the net proceeds held in money market funds. Through March 31, 2010, we have not used any of the net proceeds from the offering. We intend to use the proceeds for general corporate purposes, including working capital. In addition, we also may use a portion of the net proceeds to acquire complementary businesses, products, services or technologies. We cannot specify with certainty all of the particular uses for the net proceeds from our initial public offering. Accordingly, our management will have broad discretion in the application of the net proceeds.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.



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**ITEM 4. RESERVED**

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Title</b>
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.

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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.

Date: May 5, 2010

MAXLINEAR, INC.  
(Registrant)

By:

/s/ JOE D. CAMPA  
**Joe D. Campa**  
**Vice President, Finance and Treasurer**  
**(Principal Financial Officer)**

/s/ PATRICK E. MCCREADY  
**Patrick E. McCready**  
**Chief Accounting Officer and Controller**  
**(Principal Accounting Officer)**

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**EXHIBIT INDEX**

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