NETLOGIC MICROSYSTEMS INC
Form 10-Q
October 29, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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: 000-50838

NETLOGIC MICROSYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	77-0455244
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3975 Freedom Circle
Santa Clara, CA 95054
(408) 454-3000
(Address and telephone number of principal executive offices)

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 x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 30, 2010
Common Stock, $0.01 par value per share	63,865,896 shares

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NETLOGIC MICROSYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)
(UNAUDITED)

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$92,328	$44,278
Marketable securities, short-term	132,800	-
Accounts receivable, net	31,073	25,137
Inventories	43,341	45,113
Deferred income taxes	14,218	13,157
Prepaid expenses and other current assets	8,107	8,638
Total current assets	321,867	136,323
Property and equipment, net	19,269	13,278
Goodwill	112,918	112,918
Intangible asset, net	192,190	223,345
Other assets	47,603	46,247
Total assets	$693,847	$532,111
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$20,410	$17,937
Accrued liabilities	30,119	34,205
Contingent earn-out liability	62,839	11,687
Deferred margin	4,017	2,667
Software licenses and other obligations, current	3,859	3,037
Total current liabilities	121,244	69,533
Software licenses and other obligations, long-term	2,376	2,409
Other liabilities	34,665	34,214
Total liabilities	158,285	106,156
Stockholders' equity		
Common stock	637	575
Additional paid-in capital	714,999	548,523
Accumulated other comprehensive income	32	-
Accumulated deficit	(180,106)	(123,143)
Total stockholders' equity	535,562	425,955
Total liabilities and stockholders' equity	$693,847	$532,111

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

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NETLOGIC MICROSYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue	$100,052	$42,314	$281,317	$105,165
Cost of revenue	40,523	21,498	134,866	49,029
Gross profit	59,529	20,816	146,451	56,136
Operating expenses:				
Research and development	32,372	16,087	92,462	42,421
Selling, general and administrative	19,763	7,740	59,619	21,912
Change in contingent earn-out liability	741	-	51,152	-
Acquisition-related costs	-	1,425	735	2,760
Total operating expenses	52,876	25,252	203,968	67,093
Income (loss) from operations	6,653	(4,436)	(57,517)	(10,957)
Interest and other income (expense), net	(126)	(196)	(236)	223
Income (loss) before income taxes	6,527	(4,632)	(57,753)	(10,734)
Provision for (benefit from) income taxes	1,318	(779)	(790)	(808)
Net income (loss)	$5,209	$(3,853)	$(56,963)	$(9,926)
Net income (loss) per share-basic	$0.08	$(0.09)	$(0.95)	$(0.23)
Net income (loss) per share-diluted	$0.08	$(0.09)	$(0.95)	$(0.23)
Shares used in calculation-basic	63,632	44,494	60,041	43,976
Shares used in calculation-diluted	67,933	44,494	60,041	43,976

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

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NETLOGIC MICROSYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net loss	$(56,963)	$(9,926)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	38,813	14,839
Gain on disposal of property and equipment	(25)	-
Write-off debt issuance costs related to line of credit	305	-
Amortization of premium relating to debt securities	440	-
Stock-based compensation	36,032	16,770
Provision for doubtful accounts	116	-
Provision for inventory reserves	4,415	2,273
Deferred income taxes, net	(1,238)	3,381
Changes in current assets and liabilities:		
Accounts receivable	(6,709)	(2,141)
Inventories	(2,453)	3,133
Prepaid expenses and other assets	(1,596)	(7,069)
Accounts payable and accrued liabilities	(3,360)	10,551
Contingent earn-out liability	51,152	-
Deferred margin	2,007	(633)
Other long-term liabilities	870	575
Net cash provided by operating activities	61,806	31,753
Cash flows from investing activities:		
Purchase of property and equipment	(6,042)	(646)
Purchase of intangible assets	(1,250)	-
Purchase of marketable securities	(160,986)	(14,633)
Sales and maturities of marketable securities	27,800	27,700
Loan to RMI	-	(15,000)
Cash paid for acquisitions	-	(115,501)
Net cash used in investing activities	(140,478)	(118,080)
Cash flows from financing activities:		
Proceeds from line of credit and term notes	-	37,000
Payments of principal of line of credit and term notes	-	(8,500)
Payments of software license and other obligations	(3,619)	(519)
Payments of debt issuance costs	-	(1,095)
Proceeds from issuance of Common Stock pursuant to a follow-on offering	117,813	-
Payments for stock offering costs	(6,145)	-
Proceeds from other issuances of Common Stock	20,292	10,179
Tax payments related to vested awards	(1,619)	(838)
Net cash provided by financing activities	126,722	36,227
Net increase (decrease) in cash and cash equivalents	48,050	(50,100)
Cash and cash equivalents at beginning of period	44,278	83,474

Cash and cash equivalents at end of period	$92,328	$33,374
Supplemental disclosures of cash flow information:		
Acquisition of property and equipment under capital leases and software license obligations	$4,881	$3,870

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

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NETLOGIC MICROSYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of NetLogic Microsystems, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions for Form 10-Q and Regulation S-X statements. Accordingly, they do not include all of the information and notes required for complete financial statements. In the opinion of management, all adjustments, consisting of only normal recurring items, considered necessary for a fair statement of the results of operations for the periods are shown.

On February 16, 2010, the Company's directors approved a 2-for-1 stock split of the Company's common stock, to be effected pursuant to the issuance of additional shares as a stock dividend. The stock dividend was paid on March 19, 2010 to stockholders of record as of March 5, 2010. All share and per share amounts in these condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the stock split for all periods presented.

These unaudited financial statements should be read in conjunction with the audited financial statements and accompanying notes included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2009. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Critical Accounting Policies and Estimates

The preparation of the Company's unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires it to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company based these estimates and assumptions on historical experience and evaluated them on an on-going basis to help ensure they remain reasonable under current conditions. Actual results could differ from those estimates. During the three and nine months ended September 30, 2010, there were no significant changes to the critical accounting policies and estimates discussed in the Company's 2009 annual report on Form 10-K/A except for the following:

Revenue recognition. The Company has entered into licensing agreements with some of its customers. For these license arrangements the Company recognizes revenue under the proportionate performance method provided that fees are fixed or determinable and collectability is probable. When such license arrangements contain multiple elements (e.g., license grants and services), the Company reviews each element to determine the separate units of accounting that exist within the agreement. If more than one unit of accounting exists, the Company generally allocates the consideration payable under the agreement to each unit of accounting using the relative fair value method. The Company recognizes revenue for each unit of accounting when the revenue recognition criteria have been met for that unit of accounting.

Cash, Cash Equivalents and Marketable Securities. The Company considers all highly liquid investments purchased with a remaining maturity of three months or less at the date of purchase to be cash equivalents. The Company diversifies its deposits with high credit quality financial institutions. Deposits held in money market funds are stated at cost, which approximates market value. Money market deposits are readily convertible to cash and are classified as cash equivalents. Marketable securities held by the Company, which are all available-for-sale investments and carried at fair value, consisted of U.S. treasury and government agency securities. The cost of securities sold is accounted for based on the specific identification method. Marketable securities with remaining contractual maturities on the date of purchase greater than 90 days are classified as short-term even though the contractual maturities may be greater than one year because such investments, which are highly liquid, represent funds available for use in current operations. These investments are monitored for impairment periodically and reductions in carrying value are recorded against earnings when the declines are determined to be other-than-temporary.

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2. Basic and Diluted Net Loss Per Share

The Company computes net income (loss) per share in accordance with ASC 260, “Earnings per Share.” Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted net income (loss) per share gives effect to all dilutive potential common shares outstanding during the period including stock options and warrants using the treasury stock method.

The following is a reconciliation of the weighted average number of common shares used to calculate basic net income (loss) per share to the weighted average common and potential common shares used to calculate diluted net income (loss) per share for the three and nine months ended September 30, 2010 and 2009 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator:				
Net income (loss): basic and diluted	$5,209	$(3,853)	$(56,963)	$(9,926)
Denominator:				
Add: common shares outstanding	63,632	44,560	60,041	44,042
Less: unvested common shares subject to repurchase	-	(66)	-	(66)
Total shares: basic	63,632	44,494	60,041	43,976
Add: stock options and warrants outstanding	4,301	-	-	-
Total shares: diluted	67,933	44,494	60,041	43,976
Net income (loss) per share: basic	$0.08	$(0.09)	$(0.95)	$(0.23)
Net income (loss) per share: diluted	$0.08	$(0.09)	$(0.95)	$(0.23)

For the three and nine months ended September 30, 2010 and 2009, employee stock options to purchase the following numbers of shares of common stock were excluded from the computation of diluted net income (loss) per share as their effect would be anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Shares excluded from the computation of diluted net income per share	-	3,644	4,502	4,960

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3. Stock-Based Compensation

The Company has adopted stock plans that provide for grants to employees of equity-based awards, which include stock options and restricted stock. In addition, the Company has an Employee Stock Purchase Plan (“ESPP”) that allows employees to purchase its common stock at a discount through payroll deductions. The estimated fair value of the Company’s equity-based awards, less expected forfeitures, is amortized over the service period of the awards. The Company also grants stock options and restricted stock to new employees in accordance with Nasdaq Marketplace rule 5635(c)(4) as an inducement material to the new employee’s entering into employment with the Company. At the Company's 2010 Annual Meeting of Stockholders held on May 21, 2010, the Company's stockholders approved an increase of 2,700,000 shares reserved for issuance under the Company’s 2004 Equity Incentive Plan.

The following table summarizes stock-based compensation expense recorded for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of revenue	$167	$164	$536	$519
Research and development	6,127	3,733	18,890	9,345
Selling, general and administrative	4,981	2,555	16,606	6,906
Total stock-based compensation expense	$11,275	$6,452	$36,032	$16,770

In addition, the Company capitalized approximately $0.1 million and $0.1 million of stock-based compensation in inventory as of September 30, 2010 and December 31, 2009, respectively, which represented indirect manufacturing costs related to its inventory.

Stock Options

The exercise price of each stock option generally equals the market price of the Company’s common stock on the date of grant. Most options vest over four years and expire no later than ten years from the grant date. During the three and nine months ended September 30, 2010 the Company did not grant stock options to purchase shares of common stock. During the three and nine months ended September 30, 2009, the Company granted stock options to purchase approximately 104,000 and 622,000 shares of common stock, respectively. As of September 30, 2010 there was approximately $14.7 million of total unrecognized compensation cost related to unvested stock options granted and outstanding with a weighted average remaining vesting period of 2.75 years.

Restricted Stock

During the three and nine months ended September 30, 2010 the Company granted restricted stock units representing the future right to acquire approximately 128,000 and 573,000 shares of common stock, respectively. During the three and nine months ended September 30, 2009, the Company granted restricted stock units representing the future right to acquire approximately 326,000 and 964,000 shares of common stock, respectively. These awards vest over the requisite service period, which ranges from six months to four years. The fair value of the restricted stock units was determined using the fair value of the Company’s common stock on the grant date. The fair value of the restricted stock units is amortized on a straight-line basis over the service period, and is reduced for estimated forfeitures. As of September 30, 2010, there was approximately $53.1 million of total unrecognized compensation cost related to unvested restricted stock units granted which is expected to be recognized over a weighted average period of 2.45 years.

Employee Stock Purchase Plan

The Company's ESPP provides that eligible employees may purchase up to $25,000 worth of its common stock annually over the course of two six-month offering periods. The purchase price to be paid by participants is 85% of the price per share of the Company's common stock either at the beginning or the end of each six-month offering period, whichever is less.

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Valuation Assumptions

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. The Company's employee stock options have characteristics significantly different from those of publicly traded options as they have vesting requirements and are not fully transferable. The weighted average assumptions used in the model are outlined in the following table (there were no stock options granted during the three and nine months ended September 30, 2010):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010		2009		2010		2009	
Stock Option Plans:								
Risk-free interest rate	-		2.44	%	-		1.97	%
Expected life of options (in years)	-		5.41		-		5.82	
Expected dividend yield	-		0.00	%	-		0.00	%
Volatility	-		56	%	-		60	%
Weighted average fair value	-		$20.49		-		$13.70	
Employee Sotck Purchase Plan:								
Risk-free interest rate	0.22	%	0.33	%	0.20	%	0.30	%
Expected life of options (in years)	0.50		0.50		0.49		0.49	
Expected dividend yield	0.00	%	0.00	%	0.00	%	0.00	%
Volatility	38	%	75	%	38	%	75	%
Weighted average fair value	$6.90		$13.25		$6.38		$9.93	

The computation of the expected volatility assumption used in the Black-Scholes calculations for new grants is based on a combination of historical and implied volatilities. When establishing the expected life assumption, the Company reviews on a semi-annual basis the historical employee exercise behavior with respect to option grants with similar vesting periods.

4. Income Taxes

During the three months ended September 30, 2010 and 2009, the Company recorded an income tax provision of $ 1.3 million and tax benefit of $0.8 million, respectively. During the nine months ended September 30, 2010 and 2009, the Company recorded an income tax benefit of $0.8 million in both periods. The effective tax rate for the three months ended September 30, 2010 was primarily driven by a rate differential for book income generated in foreign jurisdictions and book losses generated in the United States.

At December 31, 2009 and September 30, 2010, the Company had $49.3 million and $49.4 million of unrecognized tax benefits. Approximately $45.1 million of the balance as of September 30, 2010 would affect the Company's effective tax rate if recognized.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2009 and September 30, 2010, the Company had $0.4 million and $0.5 million of accrued interest and no accrued penalties related to uncertain tax positions.

The Company anticipates that is reasonably possible that approximately $10 million of unrecognized tax benefits will decrease within the next twelve months due to the expiration of statute of limitations.

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5. Business Combination

RMI Corporation

On May 31, 2009, the Company entered into an Agreement and Plan of Merger Reorganization, or definitive agreement, with the Company’s wholly-owned subsidiary, Roadster Merger Corporation, and RMI Corporation (“RMI”), a provider of high-performance and low-power multi-core, multi-threaded processors. Under the terms of the definitive agreement, the Company loaned $15.0 million to RMI on June 1, 2009 pursuant to a secured promissory note due November 30, 2010 bearing interest at a 10% annual rate (the “RMI Loan”). The Company recorded interest income of $375,000 and $500,000 for the three and nine months ended September 30, 2009, respectively. The RMI loan was extinguished in October 2009.

On October 30, 2009, the Company completed the acquisition of RMI and delivered merger consideration of approximately 9.9 million shares of the Company’s common stock (valued at $188.5 million) and $12.6 million cash to the paying agent for distribution to the former holders of RMI capital stock. Approximately 10% of the shares of common stock delivered as merger consideration are being held in escrow as security for claims and expenses that might arise during the first 12 months following the closing date. Additionally, the Company may be required to issue up to an additional 3.1 million shares of common stock and pay up to an additional $15.9 million cash to the former holders of RMI capital stock as earn-out consideration based upon achievement of specified percentages of revenue targets for either the 12-month period from October 1, 2009 through September 30, 2010, or the 12-month period from November 1, 2009 through October 31, 2010, whichever period results in the higher percentage of the revenue target. The additional earn-out consideration, if any, net of applicable indemnity claims, will be paid on or before December 31, 2010. In accordance with ASC 805 Business Combinations, a liability was recognized for the estimated merger date fair value of the acquisition-related contingent consideration based on the probability of the achievement of the revenue target. The Company assumed a probability-weighted revenue achievement of approximately 80% of target and recorded at an initial earn-out liability of $9.7 million composed of 487,000 shares of its common stock value at $9.3 million and $0.4 million in cash. Changes in the fair value of the acquisition-related contingent consideration subsequent to the merger date, including changes from events after the acquisition date, such as changes in the Company’s estimate of the revenue expected to be achieved and changes in their stock price, are being recognized in earnings in the period in which the estimated fair value changes. See Note 8 for change in the fair value measurement of the contingent earn-out liability for the three and nine months ended September 30, 2010.

In-process research and development, or IPRD, consisted of the in-process project to complete development of the XLPTM processor. Acquired IPRD assets are initially recognized at fair value and are classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. Accordingly, during the development period after the acquisition date, these assets will not be amortized as charges to earnings; instead this asset will be subject to periodic impairment testing. Upon successful completion of the development process for the acquired IPRD project, the asset would then be considered a finite-lived intangible asset and amortization of the asset will commence. Development of the XLPTM processor core was 99% complete as of September 30, 2010 and the estimated incremental cost to complete was approximately $0.2 million. The Company has received and sampled first silicon on this product and in October 2010 has determined that the project is complete. The asset has been re-designated a finite-lived intangible asset and amortization of the asset will commence in the fourth quarter of 2010 over an expected useful live of 10 years. Minor validation and testing work will continue prior to achieving high volume production which is anticipated to occur in 2011.

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Integrated Device Technology, Inc., Network Search Engine Business

On July 17, 2009, the Company purchased intellectual property and other assets relating to the network search engine business of Integrated Device Technology, Inc. (“IDT”) which the Company refers to as the “IDT NSE Acquisition”. The acquisition was accounted for as a business combination under ASC 805 Business Combinations. The estimated total purchase price of $98.2 million was allocated to inventory and intangible assets based on their fair values as of the date of the completion of the acquisition, including an asset related to a supply agreement with IDT of $0.9 million. The supply agreement allows the Company to source certain finished product from IDT generally at cost for a contracted period of time. IDT's pricing to the Company was considered to be below market price in most cases. Accordingly, the Company recorded an asset upon the signing of the agreement representing the difference between IDT prices and estimated market prices for those products based on quantities that the Company currently estimates it will purchase under the supply agreement. The Company is amortizing the asset associated with the supply agreement and increasing its inventory carrying value as products are purchased under the supply agreement. See Note 6 for activity in the supply agreement asset.

Aeluros, Inc.

In October 2007, the Company acquired all outstanding equity securities of Aeluros, Inc. (“Aeluros”) a privately-held, fabless provider of industry-leading 10-Gigabit Ethernet physical layer products. The Company paid $57.1 million in cash. During the fourth quarter of fiscal 2008, the Company became obligated to pay an additional $15.5 million in cash to the former Aeluros stockholders due to its attainment of post-acquisition revenue milestones. Under the then applicable accounting standards, the additional consideration was included in goodwill and accrued liabilities at December 31, 2008, and was paid to the former Aeluros stockholders in February 2009.

Pro Forma Data for IDT NSE and RMI Acquisitions

The following table presents the unaudited pro forma results of the Company as though the IDT NSE and RMI acquisitions described above occurred at January 1, 2009. The data below includes the historical results of the Company and each of these acquisitions on a standalone basis for the three and nine months ended September 30, 2009. Adjustments have been made for the estimated fair value adjustment related to acquired inventory, amortization of intangible assets, and the related income tax impact of the pro forma adjustments. No adjustments were made to interest and related expenses associated with debt financing of these acquisitions or the change in contingent earn-out liability recorded by the Company in 2009. The pro forma information presented does not purport to be indicative of the results that would have been achieved had both acquisitions been made as of those dates nor of the results which may occur in the future.

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
	(in thousands, except per share amount)	
Revenue	$63,111	$181,679
Net loss	(16,444)	(77,303)
Net losss per share - basic and diluted	(0.30)	(1.42)

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6. Goodwill and Intangible Assets

The following table summarizes the components of goodwill, other intangible assets and related accumulated amortization balances, which were recorded as a result of prior business combinations (in thousands):

	September 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill	$112,918	$ -	$112,918	$112,918	$ -	$112,918
Other intangible assets:						
Developed technology	$36,880	$ (26,551)	$10,329	$36,880	$ (19,821)	$17,059
Composite intangible asset	74,046	(19,272)	54,774	74,046	(10,560)	63,486
Patents and core technology	78,640	(18,220)	60,420	77,390	(5,159)	72,231
Customer relationships	20,700	(5,316)	15,384	20,700	(3,246)	17,454
Tradenames and trademarks	2,200	(672)	1,528	2,200	(122)	2,078
Non-competition agreements	400	(147)	253	400	(27)	373
Intellectual property	3,472	(480)	2,992	3,472	(88)	3,384
Other intangible assets	256	(256)	-	256	(103)	153
Supply agreement	872	(862)	10	872	(245)	627
In-process research and development	46,500	-	46,500	46,500	-	46,500
Total	$263,966	$ (71,776)	$192,190	$262,716	$ (39,371)	$223,345

As of September 30, 2010 and December 31, 2009, goodwill represented approximately 16% and 21% of the Company's total assets.

The following table presents details of the amortization of intangible assets included in the cost of revenue and operating expenses categories for the periods presented, including acquired backlog, but excluding supply agreement and other intangible assets (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of revenue	$9,632	$4,778	$29,028	$10,738
Operating expenses:				
Selling, general and administrative	913	345	2,739	1,035
	$10,545	$5,123	$31,767	$11,773

As of September 30, 2010, the estimated future amortization expense of intangible assets in the table above is as follows, excluding supply agreement (in thousands):

Fiscal Year Ending	Estimated Amortization
2010 (remaining 3 months)	$ 11,344
2011	43,577
2012	35,457

2013	29,015
2014	16,072
Thereafter	56,715
Total	$ 192,180

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7. Cash Equivalents and Marketable Securities

There were no available-for-sale investments as of December 31, 2009. The following is a summary of available-for-sale investments as of September 30, 2010 (in thousands):

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Estimated Fair Value
Investments in:				
U.S. treasury securities	$16,613	$-	$-	$16,613
U.S. government agency securities	120,222	59	(5)	120,276
Money market funds	60,339	-	-	60,339
Total	$197,174	$59	$(5)	$197,228
Reported as:				
Cash and cash equivalents	$64,428	$-	$-	$64,428
Marketable securities, short-term	132,746	59	(5)	132,800
	$197,174	$59	$(5)	$197,228

Excluding money market funds, which do not have stated contractual maturity dates, the fair value of the Company's investments as of September 30, 2010, by contractual maturity, was as follows (in thousands):

	September 30, 2010
Investments:	
Due in 1 year or less	$94,683
Due after 1 year through 5 years	42,206
Total	$136,889

Net unrealized holding gains and losses on available-for-sale investments were included as a separate component of stockholders' equity.

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8. Fair Value Measurements

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities.

Level 3 – Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company measures its financial assets and financial liabilities, specifically its cash equivalents, marketable securities and contingent earn-out liability, at fair value on a recurring basis. As of December 31, 2009 the Company's cash balance was $44.3 million, and it did not have cash equivalents or marketable securities. The fair value of these financial assets and liabilities was determined using the following inputs as of September 30, 2010 and December 31, 2009 (in thousands):

		Fair Value Measurements at September 30, 2010 Using
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)