

Avago Technologies LTD  
Form 10-Q  
March 08, 2012  
Table of Contents

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q  
(MARK ONE)

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

For the quarterly period ended January 29, 2012

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34428

Avago Technologies Limited  
(Exact Name of Registrant as Specified in Its Charter)  
Singapore  
(State or Other Jurisdiction of  
Incorporation or Organization)  
1 Yishun Avenue 7  
Singapore 768923  
(Address of Principal Executive Offices)

98-0682363  
(I.R.S. Employer  
Identification No.)  
N/A  
(Zip Code)

(65) 6755-7888

(Registrant's telephone number, including area code)

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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

YES  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of March 2, 2012 there were 243,902,890 shares of our ordinary shares, no par value per share, outstanding.

---



Table of Contents

AVAGO TECHNOLOGIES LIMITED  
Quarterly Report on Form 10-Q  
For the Quarterly Period Ended January 29, 2012

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Condensed Consolidated Financial Statements — Unaudited</u>	<u>3</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>23</u>
<u>Item 4. Controls and Procedures</u>	<u>23</u>
<u>PART II. OTHER INFORMATION</u>	<u>24</u>
<u>Item 1. Legal Proceedings</u>	<u>24</u>
<u>Item 1A. Risk Factors</u>	<u>24</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>43</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>43</u>
<u>Item 5. Other Information</u>	<u>43</u>
<u>Item 6. Exhibits</u>	<u>43</u>
<u>SIGNATURES</u>	<u>46</u>
EX-4.2	
EX-4.3	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements — Unaudited

## AVAGO TECHNOLOGIES LIMITED

## CONDENSED CONSOLIDATED BALANCE SHEETS — UNAUDITED

(in millions, except share amounts)

	January 29, 2012	October 30, 2011 (1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$819	\$829
Trade accounts receivable, net	308	328
Inventory	193	194
Other current assets	52	42
Total current assets	1,372	1,393
Property, plant and equipment, net	354	316
Goodwill	177	177
Intangible assets, net	480	499
Other long-term assets	61	61
Total assets	\$2,444	\$2,446
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$222	\$221
Employee compensation and benefits	51	89
Capital lease obligations — current	2	2
Other current liabilities	39	38
Total current liabilities	314	350
Long-term liabilities:		
Capital lease obligations — non-current	3	4
Other long-term liabilities	87	86
Total liabilities	404	440
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Ordinary shares, no par value; 243,761,105 shares and 245,962,320 shares issued and outstanding on January 29, 2012 and October 30, 2011, respectively	1,416	1,479
Retained earnings	621	525
Accumulated other comprehensive income	3	2
Total shareholders' equity	2,040	2,006
Total liabilities and shareholders' equity	\$2,444	\$2,446

---

(1) Amounts as of October 30, 2011 have been derived from audited financial statements as of that date.

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



Table of Contents

AVAGO TECHNOLOGIES LIMITED  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS — UNAUDITED  
 (in millions, except per share data)

	Quarter Ended		
	January 29, 2012	January 30, 2011	
Net revenue	\$563	\$550	
Cost of products sold:			
Cost of products sold	279	265	
Amortization of intangible assets	14	14	
Total cost of products sold	293	279	
Gross margin	270	271	
Research and development	82	73	
Selling, general and administrative	50	50	
Amortization of intangible assets	5	6	
Restructuring charges	1	—	
Total operating expenses	138	129	
Income from operations	132	142	
Interest expense	(1	) (3	)
Loss on extinguishment of debt	—	(19	)
Other expense, net	(1	) —	
Income before income taxes	130	120	
Provision for income taxes	5	1	
Net income	\$125	\$119	
Net income per share:			
Basic:			
Net income per share	\$0.51	\$0.49	
Diluted:			
Net income per share	\$0.50	\$0.48	
Weighted average shares :			
Basic	245	242	
Diluted	250	250	
Dividends declared and paid per share	\$0.12	\$0.07	

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

Table of Contents

AVAGO TECHNOLOGIES LIMITED  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — UNAUDITED  
 (in millions)

	Quarter Ended	
	January 29, 2012	January 30, 2011
Cash flows from operating activities:		
Net income	\$125	\$119
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37	41
Loss on extinguishment of debt	—	5
Impairment of investment and loan receivable from investee	2	—
Share-based compensation	11	7
Tax benefits from share-based compensation	—	8
Excess tax benefits from share-based compensation	—	(2)
Changes in assets and liabilities, net of acquisition:		
Trade accounts receivable, net	20	(5)
Inventory	1	(14)
Accounts payable	(8)	(30)
Employee compensation and benefits	(38)	(31)
Other current assets and current liabilities	(10)	(31)
Other long-term assets and long-term liabilities	(1)	—
Net cash provided by operating activities	139	67
Cash flows from investing activities:		
Purchase of property, plant and equipment	(47)	(32)
Acquisition and investment, net of cash acquired	—	(9)
Net cash used in investing activities	(47)	(41)
Cash flows from financing activities:		
Proceeds from government grants	1	—
Debt repayments	—	(230)
Payments on capital lease obligations	—	(1)
Issuance of ordinary shares	5	22
Repurchase of ordinary shares	(79)	—
Excess tax benefits from share-based compensation	—	2
Dividend payments to shareholders	(29)	(17)
Net cash used in financing activities	(102)	(224)
Net decrease in cash and cash equivalents	(10)	(198)
Cash and cash equivalents at the beginning of period	829	561
Cash and cash equivalents at end of period	\$819	\$363

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

Table of Contents

AVAGO TECHNOLOGIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Overview and Basis of Presentation

Overview

Avago Technologies Limited, or the “Company”, was organized under the laws of the Republic of Singapore in August 2005. We are the successor to the Semiconductor Products Group, or SPG, of Agilent Technologies, Inc., or Agilent. On December 1, 2005, we acquired substantially all of the assets of SPG from Agilent for \$2.7 billion, or the SPG Acquisition.

We are a designer, developer and global supplier of analog semiconductor devices with a focus on III-V based products. We offer products in four primary target markets: wireless communications, wired infrastructure, industrial and automotive electronics, and consumer and computing peripherals. Applications for our products in these target markets include cellular phones, consumer appliances, data networking and telecommunications equipment, enterprise storage and servers, factory automation, displays, optical mice and printers.

References herein to “we”, “our”, “us” and “Avago” are to Avago Technologies Limited and its consolidated subsidiaries, unless otherwise specified or the context otherwise requires.

Basis of Presentation

Fiscal Periods. We operate on a 52- or 53-week fiscal year ending on the Sunday closest to October 31. Our first quarter of fiscal year 2012 ended on January 29, 2012, the second quarter will end on April 29, 2012, the third quarter will end on July 29, 2012 and the fourth quarter will end on October 28, 2012.

Information. The unaudited condensed consolidated financial statements include the accounts of Avago and all of our wholly-owned subsidiaries, and are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Intercompany transactions and balances have been eliminated in consolidation. Interim information presented in the unaudited condensed consolidated financial statements has been prepared by management and, in the opinion of management, includes all adjustments of a normal recurring nature that are necessary for the fair statement of the financial position, results of operations and cash flows for the periods shown, and is in accordance with GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the fiscal year ended October 30, 2011, or fiscal year 2011, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on December 16, 2011.

The operating results for the quarter ended January 29, 2012 are not necessarily indicative of the results that may be expected for the year ending October 28, 2012, or fiscal year 2012, or for any other future period. The balance sheet data as of October 30, 2011 presented is derived from the audited financial statements as of that date.

Use of estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods.

Concentrations of credit risk and significant customers. Our cash, cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents may be redeemable upon demand and are maintained with several financial institutions that management believes are of high credit quality and therefore bear minimal credit risk. The Company seeks to mitigate its credit risks by spreading such risks across multiple counterparties and monitoring the risk profile of these counterparties. Our accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. Credit risk with respect to accounts receivable is generally diversified due to the large number of entities comprising our customer base and their dispersion across many different industries and geographies. We perform ongoing credit evaluations of our customers’ financial conditions, and require collateral, such as letters of credit and bank guarantees, in certain circumstances.

We sell our products through our direct sales force, manufacturers representatives and distributors. Two customers accounted for 21% and 11%, respectively, of our net accounts receivable balance at January 29, 2012 and these same



two customers accounted for 15% and 10%, respectively, of our net accounts receivable balance at October 30, 2011. For the quarters ended January 29, 2012 and January 30, 2011, one customer represented 17% and no single customer represented 10% or more of net revenue, respectively.

Net income per share. Basic net income per share is computed using the weighted-average number of ordinary shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of ordinary shares and potentially dilutive share equivalents outstanding during the period. Diluted shares outstanding includes the dilutive effect of in-the-money options, restricted share units, or RSUs, and employee share purchase rights under the Avago Technologies Limited Employee Share Purchase Plan, or ESPP. The dilutive effect of such equity awards is calculated based on the average

Table of Contents

share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options and to purchase shares under the ESPP, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when equity awards become deductible for income tax purposes are collectively assumed to be used to repurchase shares.

Diluted net income per share for the quarters ended January 29, 2012 and January 30, 2011 excluded the potentially dilutive effect of weighted-average outstanding equity awards, including options, RSUs, and ESPP rights, to purchase 2 million and less than one million ordinary shares, respectively, as their effect was antidilutive.

The following is a reconciliation of the denominators of the basic and diluted net income per share computations for the periods presented (in millions, except per share data):

	Quarter Ended	
	January 29, 2012	January 30, 2011
Net income (Numerator):		
Net income	\$125	\$119
Shares (Denominator):		
Basic weighted average ordinary shares outstanding	245	242
Add: Incremental shares for:		
Dilutive effect of share options, RSUs and ESPP rights	5	8
Shares used in diluted computation	250	250
Net income per share:		
Basic:		
Net income per share	\$0.51	\$0.49
Diluted:		
Net income per share	\$0.50	\$0.48

Supplemental cash flow disclosures. At January 29, 2012 and October 30, 2011, we had \$23 million and \$14 million, respectively, of unpaid purchases of property, plant, and equipment included in accounts payable. Amounts reported as unpaid purchases are recorded as cash outflows from investing activities for purchases of property, plant, and equipment in the consolidated statement of cash flows in the period they are paid.

**Recently Adopted Accounting Guidance**

In the first quarter of fiscal year 2012, we adopted the updated guidance issued by Financial Accounting Standards Board, or FASB, related to fair value measurements and disclosures, which requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 fair value measurements (see Note 6. "Fair Value" for further discussion of fair value measurements). Because these new standards are related primarily to the disclosures required in our financial statements, their adoption has not had a significant impact on our results of operations and financial position.

**Recent Accounting Guidance Not Yet Adopted**

In September 2011, the FASB issued updated guidance on multiemployer pension plans. This guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and, therefore, help financial statement users better understand the financial health of all of the significant plans in which the employer participates. The updated guidance does not change the current recognition and measurement guidance for an employer's participation in a multiemployer plan. This guidance will be effective for our fiscal year ending October 28, 2012, or fiscal year 2012, with early adoption permitted. Other than requiring additional disclosures in our financial statements, we believe the adoption of this guidance will not have a significant impact on our results of operations and financial position.

In August 2011, the FASB issued an accounting standard update on goodwill impairment testing. This guidance is intended to reduce the cost and complexity of the goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment,

that it is more likely than not that its fair value is less than its carrying amount. The new guidance will be effective for the first quarter of our fiscal year ending November 3, 2013, or fiscal year 2013, with early adoption permitted. We do not expect this new guidance to have a significant impact on our results of operations and financial position.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. The new guidance is intended to enhance comparability between entities that report under GAAP and those that report under International Financial Reporting

7

---

Table of Contents

Standards, or IFRS, and to provide a more consistent method of presenting non-owner transactions that affect an entity's equity. In accordance with the new guidance, an entity has the option to present total comprehensive income either in a single continuous statement or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The requirement to present reclassification adjustments out of accumulated other comprehensive income on the face of the consolidated statement of income has been deferred by an update issued by the FASB in December 2011. This new guidance should be applied retrospectively and will be effective for the first quarter of our fiscal year 2013, with early adoption permitted. Other than its impact on the presentation of other comprehensive income, we believe the adoption of this guidance will not have a significant impact on our results of operations and financial position. In May 2011, the FASB issued an updated guidance on fair value measurement and related disclosure requirements in GAAP, and the International Accounting Standards Board, or IASB, issued fair value measurement guidance (together, the new guidance). The new guidance amends GAAP and is a new standard under IFRS. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. While many of the amendments to GAAP are not expected to have a significant effect on practice, the new guidance changes some fair value measurement principles and disclosure requirements. The new guidance will be effective for the second quarter of our fiscal year 2012, with early adoption prohibited. Other than requiring additional disclosures in our financial statements, we do not expect this new guidance to have a significant impact on our results of operations and financial position.

**2. Inventory**

Inventory consists of the following (in millions):

	January 29, 2012	October 30, 2011
Finished goods	\$51	\$48
Work-in-process	106	106
Raw materials	36	40
Total inventory	\$193	\$194

**3. Acquisition**

During the first quarter of fiscal year 2011, we acquired a U.S.-based company engaged in the manufacturing of integrated circuits for approximately \$8 million in cash. The purchase price was allocated to the acquired net assets based on estimates of fair values as follows: net assets of \$8 million, including intangible assets of \$4 million and goodwill of \$5 million. The intangible assets are being amortized over their useful lives ranging from 5 to 15 years. The unaudited condensed consolidated financial statements include the results of operations of the acquired business commencing as of the acquisition date. Pro forma results of operations for the acquisition have not been presented because the effects of the acquisition were not material to our prior financial statements.

**4. Goodwill and Intangible Assets****Goodwill**

There were no changes to goodwill during the quarter ended January 29, 2012.

Table of Contents

## Intangible Assets

Amortizable purchased intangibles consist of the following (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
As of January 29, 2012:			
Purchased technology	\$728	\$(360)	) \$368
Customer and distributor relationships	257	(147)	) 110
Other	4	(2)	) 2
Total	\$989	\$(509)	) \$480
As of October 30, 2011:			
Purchased technology	\$728	\$(346)	) \$382
Customer and distributor relationships	257	(142)	) 115
Other	4	(2)	) 2
Total	\$989	\$(490)	) \$499

The following table presents the amortization of purchased intangible assets (in millions):

	Quarter Ended	
	January 29, 2012	January 30, 2011
Cost of products sold	\$14	\$14
Operating expenses	5	6
Total	\$19	\$20

During the first quarter of fiscal year 2011, we recorded \$4 million in intangible assets with a weighted-average amortization period of 14 years in conjunction with an acquisition. See Note 3. "Acquisition."

Based on the amount of intangible assets subject to amortization at January 29, 2012, the expected amortization expense for each of the next five fiscal years and thereafter is as follows (in millions):

Fiscal Year	Amount
2012 (remainder)	\$58
2013	77
2014	77
2015	76
2016	59
2017	49
Thereafter	84
	\$480

Table of Contents

The weighted-average amortization periods remaining by intangible asset category as at January 29, 2012 were as follows (in years):

Amortizable intangible assets:

Purchased technology	8
Customer and distributor relationships	7
Other	22

#### 5. Borrowings

We had no borrowings outstanding as of January 29, 2012 and October 30, 2011.

#### Debt Repayments

During the quarter ended January 30, 2011, we redeemed the remaining \$230 million aggregate principal amount outstanding of our 11 7/8% Senior Subordinated Notes due December 1, 2015, or senior subordinated notes. We redeemed the senior subordinated notes at a 5.938% premium of the principal amount plus accrued interest, resulting in a loss on extinguishment of debt of \$19 million, which consisted of a \$14 million premium and a \$5 million write-off of debt issuance costs and other related expenses.

#### Revolving Credit Facility

As of January 29, 2012, we had no borrowings outstanding under our revolving credit facility and were in compliance with the financial covenants under our credit agreement.

#### 6. Fair Value

Fair value is defined as the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level hierarchy is applied to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under the guidance for fair value measurements are described below:

Level 1—Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Our Level 1 assets include time deposits, bank acceptances, investment funds—deferred compensation plan assets and available-for-sale securities investments. We measure investment funds and available-for-sale securities investments at quoted market price as they are traded in an active market with sufficient volume and frequency of transactions. Time deposits are highly liquid with maturities of ninety days or less. Bank acceptances are highly liquid with maturities of one hundred and eighty days or less. Due to their short-term maturities, we have determined that the fair value of time deposits and bank acceptances should be their face value.

Level 2—Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. We did not have any Level 2 asset or liability activities during the quarter ended January 29, 2012.

Level 3—Level 3 inputs are unobservable inputs for the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date. Level 3 assets and liabilities include cost method investments, goodwill, amortizable intangible assets, and property, plant and equipment, which are measured at fair value using a discounted cash flow approach when they are impaired. Quantitative information for Level 3 assets and liabilities reviewed at each reporting period, includes indicators of significant deterioration in the earnings performance, credit rating, asset quality, business prospects of the investee, and financial indicators of the investee's ability to continue as a going concern.

We record at cost non-marketable investments where we do not have the ability to exercise significant influence or control and periodically review them for impairment. During fiscal year 2011, we made an investment of \$1 million in the common stock of a privately-held non-U.S. company. This equity investment is accounted for under the cost method and is included on the balance sheet in other long-term assets. In fiscal year 2011, we also entered into a secured loan and warrant purchase agreement with this company, pursuant to which we provided them with a secured loan of \$1 million, at an annual interest rate of 8%, for a term of one year. Based on the quantitative assessment of the

financial condition and business prospects of the investee, this equity investment and loan were both determined to be impaired during the quarter ended January 29, 2012.

We did not have any Level 3 asset or liability activities other than those noted above during the quarter ended January 29, 2012.

Table of Contents

## Assets Measured at Fair Value on a Recurring Basis

The table below sets forth by level our financial assets that were accounted for at fair value as of January 29, 2012. The table does not include cash on hand and also does not include assets that are measured at historical cost or any basis other than fair value (in millions).

	Portion of Carrying Value Measured at Fair Value as of January 29, 2012	Fair Value Measurement as of January 29, 2012 Using Quoted Prices In Active Market For Identical Assets (Level 1)
Assets:		
Time deposits (1)	\$450	\$450
Investment Funds — Deferred Compensation Plan Assets (2)	7	7
Bank acceptances (2)	1	1
Available-for-sale securities (3)	4	4
Total assets measured at fair value	\$462	\$462
Liabilities:		
Deferred Compensation Plan Liabilities (4)	\$7	\$7

(1) Included in cash and cash equivalents in our unaudited condensed consolidated balance sheet

(2) Included in other current assets in our unaudited condensed consolidated balance sheet

(3) Included in other long-term assets in our unaudited condensed consolidated balance sheet

(4) Included in other current liabilities in our unaudited condensed consolidated balance sheet

During the quarter ended January 29, 2012, there were no material transfers between Level 1, Level 2 or Level 3 fair value instruments.

## Assets Measured at Fair Value on a Nonrecurring Basis

There were no non-financial assets or liabilities measured at fair value as of January 29, 2012.

## Fair Value of Other Financial Instruments

The fair values of cash and cash equivalents, trade accounts receivable, accounts payable and accrued liabilities, to the extent the underlying liability will be settled in cash, approximate carrying values because of the short-term nature of these instruments.

## 7. Shareholders' Equity

## Share Repurchase Program

The Company repurchased 2.6 million shares for an aggregate purchase price of \$79 million in cash, with a weighted average price per share of \$30.23, during the quarter ended January 29, 2012. As of January 29, 2012, \$328 million, or 9.8 million shares remained available for repurchase under this share repurchase program.

## Dividends

We paid a quarterly cash dividend of \$0.12 and \$0.07 per share, or \$29 million and \$17 million in total during the quarters ended January 29, 2012 and January 30, 2011, respectively.



Table of Contents

## Share-Based Compensation

The following table summarizes share-based compensation expense related to share-based awards granted to employees, directors, and non-employees for the quarters ended January 29, 2012 and January 30, 2011 (in millions):

	Quarter Ended	
	January 29, 2012	January 30, 2011
Cost of products sold	\$1	\$1
Research and development	4	3
Selling, general and administrative	6	3
Total share-based compensation expense	\$11	\$7

The weighted-average assumptions utilized for our Black-Scholes valuation model for options and ESPP rights granted during the quarters ended January 29, 2012 and January 30, 2011 are as follows:

	Options			
	Quarter Ended			
	January 29, 2012	January 30, 2011		
Risk-free interest rate	0.9	% 1.7		%
Dividend yield	1.3	% 0.7		%
Volatility	57.0	% 45.0		%
Expected term (in years)	5.0	5.0		
ESPP				
	Quarter Ended			
	January 29, 2012	January 30, 2011		
Risk-free interest rate	0.03	% 0.2		%
Dividend yield	1.2	% —		%
Volatility	52.0	% 42.0		%
Expected term (in years)	0.5	0.5		

The dividend yield for the quarters ended January 29, 2012 and January 30, 2011 are based on the dividend yield as of the respective option grant dates. Expected volatility is based on the combination of historical volatility of guideline publicly-traded companies over the period commensurate with the expected life of the options and the implied volatility of guideline publicly-traded companies from traded options with a term of 180 days or greater measured over the last three months. The risk-free interest rate is derived from the average U.S. Treasury Strips rate during the period, which approximates the rate in effect at the time of grant. Our computation of expected term was based on data, such as the data of peer companies and company-specific attributes that we believe could affect employees' exercise behavior.

Based on the above assumptions, the weighted-average fair values of the options granted under the share option plans for the quarters ended January 29, 2012 and January 30, 2011 were \$15.14 and \$10.10, respectively. The weighted-average fair values of the rights to purchase shares in the ESPP for the quarters ended January 29, 2012 and January 30, 2011 were \$12.74 and \$6.27, respectively. The weighted-average fair value of RSUs granted in the quarter ended January 29, 2012 was \$31.99. No RSUs were granted in the quarter ended January 30, 2011.

Total compensation cost related to unvested options as of January 29, 2012 was \$96 million, which is expected to be recognized over the remaining weighted-average service period of 3 years. Total unrecognized compensation cost related to the ESPP as of January 29, 2012 was not material, and is expected to be recognized over the remaining portion of the current offering period under the ESPP, which ends on March 14, 2012. Total compensation cost related to unvested RSUs as of January 29, 2012 was \$13 million, which is expected to be recognized over the remaining weighted-average service period of 3 years.



Table of Contents

## Equity Incentive Award Plans

A summary of option award activity related to our equity incentive plans is as follows (in millions, except years and per share amounts):

	Shares Available for Grant	Awards Outstanding		Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
		Number Outstanding	Weighted-Average Exercise Price Per Share		
Balance as of October 30, 2011	10	19	\$ 17.93		
Annual increase in shares available for issuance, per equity incentive plan terms	6	—	\$—		
Granted	—	—	\$33.57		
Exercised	—	—	\$10.72		
Cancelled	—	—	\$19.81		
Balance as of January 29, 2012	16	19	\$ 18.54	6.71	\$290
Vested as of January 29, 2012		5	\$ 11.37	6.08	\$114
Vested and expected to vest as of January 29, 2012		18	\$ 18.08	6.69	\$279

The following table summarizes the ranges of outstanding and exercisable option awards as of January 29, 2012 (in millions, except years and per share amounts):

Exercise Prices	Awards Outstanding			Awards Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
\$0.00-5.00	2	4.00	\$ 4.97	1	\$ 4.96
5.01-10.00	2	6.86	\$ 9.24	1	\$ 8.73
10.01-15.00	5	6.42	\$ 12.03	2	\$ 11.37
15.01-20.00	1	7.84	\$ 17.56	—	\$ 17.78
20.01-25.00	4	8.51	\$ 20.52	1	\$ 20.55
25.01-30.00	—	7.12	\$ 29.19	—	\$ 28.52
30.01-35.00	5	6.23	\$ 32.72	—	\$ —
35.01-40.00	—	6.35	\$ 37.33	—	\$ —
Total	19	6.71	\$ 18.54	5	\$ 11.37

RSU activity and the number of outstanding RSUs were not material for either of the quarters ended January 29, 2012 and January 30, 2011.

## Employee Share Purchase Plan

There are currently 8 million shares authorized for issuance under the ESPP. The ESPP consists of successive six-month offering periods and permits eligible employees to purchase ordinary shares through payroll deductions, at the end of each offering period, at a price equal to the lesser of 85% of the fair market value of the ordinary shares at either the beginning or ending of the relevant offering period. Under the ESPP, employees purchased 0.3 million shares for aggregate consideration of \$7 million during fiscal year 2011. The next purchase date under the ESPP is scheduled to occur in the second quarter of fiscal year 2012. As at January 29, 2012, 7.7 million shares remained available for issuance under the ESPP.

## 8. Income Taxes

Edgar Filing: Avago Technologies LTD - Form 10-Q

For the quarter ended January 29, 2012, we recorded an income tax provision of \$5 million compared to \$1 million for the quarter ended January 30, 2011. The income tax provision for the quarter ended January 30, 2011 included the recognition of a

13

---

Table of Contents

\$3 million tax benefit as a result of U.S. legislation enacted in the first quarter of fiscal year 2011 retroactively reinstating the research and development tax credit.

## 9. Segment Information

ASC 280 "Segment Reporting," or ASC 280, establishes standards for the way public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers. We have concluded that we have one reportable segment based on the following factors: sales of semiconductors represents our only material source of revenue; substantially all products offered incorporate analog functionality and are manufactured under similar manufacturing processes; we use an integrated approach in developing our products in that discrete technologies developed are frequently integrated across many of our products; we use a common order fulfillment process and similar distribution approach for our products; and broad distributor networks are typically utilized while large accounts are serviced by a direct sales force. The Chief Executive Officer has been identified as the Chief Operating Decision Maker as defined by ASC 280.

## 10. Related Party Transactions

## KLA-Tencor Corporation

Mr. John T. Dickson, who became a director of the Company on January 18, 2012, also serves as a director of KLA-Tencor Corporation, or KLA-Tencor. In the ordinary course of business, on an arm's length basis, we purchase certain materials, equipment, and tools from KLA-Tencor.

## Wistron Corporation

Mr. John Min-Chih Hsuan, a director of the Company, is also a director of Wistron Corporation, one of our customers. In the ordinary course of business, on an arm's length basis, we sell certain of our products to Wistron Corporation.

## Flextronics

Mr. James A. Davidson, a director of the Company until March 9, 2011, also serves as a director of Flextronics International Ltd., or Flextronics. In the ordinary course of business, on an arm's length basis, we sell certain of our products to Flextronics.

Transactions and balances with our related parties were as follows (in millions):

	Quarter Ended	
	January 29, 2012	January 30, 2011
Net revenue:		
Flextronics <sup>1</sup>	\$—	\$28
Wistron Corporation <sup>3</sup>	2	—
Total costs and expenses:		
KLA-Tencor <sup>2</sup>	1	—
	January 29, 2012	October 30, 2011
Receivables:		
Flextronics <sup>1</sup>	\$—	\$13
Wistron Corporation <sup>3</sup>	1	—
	January 29, 2012	October 30, 2011
Payables:		
KLA-Tencor <sup>2</sup>	\$1	\$—

<sup>1</sup> Amounts represent net revenue transactions with Flextronics through the quarter ended January 30, 2011. Flextronics ceased to be a related party after the second quarter of fiscal year 2011.



Table of Contents

<sup>2</sup> Amounts represent purchase transactions with KLA-Tencor for the quarter ended January 29, 2012 and accounts payable balance as of January 29, 2012. KLA-Tencor became a related party during the first quarter of fiscal year 2012.

<sup>3</sup> Amounts represent net revenue transactions and accounts receivable balance as of January 29, 2012. Wistron Corporation became a related party during the second quarter of fiscal year 2011.

## 11. Commitments and Contingencies

## Commitments

The following table sets forth changes in our commitments as of January 29, 2012 for the fiscal periods noted (in millions).

	Total	2012 (remainder)	2013	2014	2015	2016	2017	Thereafter
Purchase commitments	\$86	\$86	\$—	\$—	\$—	\$—	\$—	\$—
Other Contractual Commitments	49	11	15	13	5	5	—	—

**Purchase Commitments.** We have unconditional purchase obligations which include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

**Other Contractual Commitments.** Represents amounts payable pursuant to agreements related to outsourced IT, human resources, financial infrastructure outsourcing services and other services agreements.

There were no other substantial changes to our contractual commitments during the first quarter of fiscal year 2012 from those disclosed in our Annual Report on Form 10-K for fiscal year 2011.

## Contingencies

From time to time, we are involved in litigation that we believe is of the type common to companies engaged in our line of business, including commercial disputes and employment issues. As of the date of this filing, we are not involved in any pending legal proceedings that we believe would likely have a material adverse effect on our financial condition, results of operations or cash flows. However, certain pending disputes involve claims by third parties that our activities infringe their patent, copyright, trademark or other intellectual property rights. These claims generally involve the demand by a third-party that we cease the manufacture, use or sale of the allegedly infringing products, processes or technologies and/or pay substantial damages or royalties for past, present and future use of the allegedly infringing intellectual property. For example, on July 23, 2009, TriQuint Semiconductor, Inc. filed a complaint against us and certain of our subsidiaries in the U.S. District Court, District of Arizona seeking declaratory judgment that four of our patents relating to RF filter technology used in our wireless products are invalid and, if valid, that TriQuint's products do not infringe any of those patents. TriQuint has withdrawn those claims with respect to three of those four patents. In addition, TriQuint claims that certain of our wireless products infringe three of its patents. TriQuint is seeking damages in an unspecified amount, treble damages for alleged willful infringement, attorneys' fees and injunctive relief. We filed our answer and initial counterclaim on September 17, 2009, denying infringement, asserting the invalidity of TriQuint's patents and asserting infringement by TriQuint of ten Avago patents, and filed additional counterclaims on March 25, 2010 for the misappropriation of Avago trade secrets. On October 16, 2009, TriQuint filed its answer to our initial counterclaim, denying infringement and filed an antitrust counterclaim and counterclaims for declaratory judgment of non infringement and invalidity. The court dismissed TriQuint's antitrust counterclaims on procedural grounds on March 16, 2010, but on August 3, 2010 granted TriQuint's motion to file an amended pleading for its anti-trust claims. We intend to defend this lawsuit vigorously, and future actions may include the assertion by us of additional claims or counterclaims against TriQuint related to our intellectual property portfolio. Summary judgment motions were heard on January 30, 2012 and ruled on in February 2012. The Court has set a trial date of July 10, 2012.

With respect to the legal proceedings, individually and in the aggregate, we have not yet been able to determine whether an unfavorable outcome is probable or reasonably possible and have not been able to reasonably estimate the amount or range of any possible loss. As a result, no amounts have been accrued or disclosed in the accompanying

unaudited condensed consolidated financial statements with respect to these legal proceedings.

Claims that our products or processes infringe or misappropriate any third-party intellectual property rights (including claims arising through our contractual indemnification of our customers) often involve highly complex, technical issues, the outcome of which is inherently uncertain. Moreover, from time to time we pursue litigation to assert our intellectual property rights. Regardless of the merit or resolution of any such litigation, complex intellectual property litigation is generally costly and diverts the efforts and attention of our management and technical personnel.



Table of Contents

Warranty

There were no material changes to our warranty accrual during the quarter ended January 29, 2012.

Indemnifications to Hewlett-Packard and Agilent

Agilent has given multiple indemnities to Hewlett-Packard Company in connection with its activities prior to its spin-off from Hewlett-Packard Company in June 1999 for the businesses that constituted Agilent prior to the spin-off. As the successor to the SPG business of Agilent, we have acquired responsibility for indemnifications related to assigned intellectual property agreements. Additionally, when we completed the acquisition of SPG from Agilent in December 2005, we provided indemnities to Agilent with regard to Agilent's conduct of the SPG business prior to the SPG acquisition. In our opinion, the fair value of these indemnifications is not material and no amount has been accrued in the accompanying condensed consolidated financial statements with respect to these indemnification obligations.

Other Indemnifications

As is customary in our industry and as provided for in local law in the United States and other jurisdictions, many of our standard contracts provide remedies to our customers and others with whom we enter into contracts, such as defense, settlement, or payment of judgment for intellectual property claims related to the use of our products. From time to time, we indemnify customers, as well as our suppliers, contractors, lessors, lessees, companies that purchase our businesses or assets and others with whom we enter into contracts, against combinations of loss, expense, or liability arising from various triggering events related to the sale and the use of our products, the use of their goods and services, the use of facilities and state of our owned facilities, the state of the assets and businesses that we sell and other matters covered by such contracts, usually up to a specified maximum amount. In addition, from time to time we also provide protection to these parties against claims related to undiscovered liabilities, additional product liability or environmental obligations. In our experience, claims made under such indemnifications are rare and the associated estimated fair value of the liability is not material.

12. Subsequent Event

On March 7, 2012, the Board declared an interim cash dividend on the Company's ordinary shares of \$0.13 per share, payable on March 30, 2012 to shareholders of record at the close of business (5:00 p.m.), Eastern Time, on March 19, 2012.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended October 30, 2011, or fiscal year 2011, included in our Annual Report on Form 10-K for fiscal year 2011, or 2011 Annual Report on Form 10-K. References to "Avago" "we", "our" and "us" are to Avago Technologies Limited and its consolidated subsidiaries, unless otherwise specified or the context otherwise requires. This Quarterly Report on Form 10-Q may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, which are made under the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, any projections of financial information; any statements about historical results that may suggest trends for our business; any statements of the plans, strategies, and objectives of management for future operations; any statements of expectation or belief regarding future events, technology developments, our products, product sales, expenses, liquidity, cash flow and growth rates, or enforceability of our intellectual property rights and related litigation expenses; and any statements of assumptions underlying any of the foregoing. All statements we make relating to estimated and projected product sales, earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. These forward-looking statements are based on current expectations, estimates, forecasts and projections of future Avago or industry performance, based on management's judgment, beliefs, current trends and market conditions, and involve risks and uncertainties that may cause actual results to differ materially from those contained in the forward-looking statements. We derive most of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. Accordingly, we caution you not to place undue reliance on these statements. For example, there can be no assurance that our product sales efforts, revenues or expenses will meet any expectations or follow any trend(s), or that our ability to compete effectively will be successful or yield anticipated results. Important factors that could cause actual results to differ materially from our expectations are disclosed under "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q, and in other documents we file from time to time with the Securities and Exchange Commission, or SEC. All of the forward-looking statements in the Quarterly Report on Form 10-Q are qualified in their entirety by reference to the factors listed above and those discussed under the heading "Risk Factors" below. We undertake no intent or obligation to publicly update or revise any of these forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are a leading designer, developer and global supplier of a broad range of analog semiconductor devices with a focus on III-V based products. III-V semiconductor materials have higher electrical conductivity and thus tend to have better performance characteristics in radio frequency, or RF, and optoelectronic applications than silicon. We differentiate ourselves through our high performance design and integration capabilities. We serve four primary target markets: wireless communications, wired infrastructure, industrial and automotive electronics, and consumer and computing peripherals. Applications for our products in these target markets include cellular phones, consumer appliances, data networking and telecommunications equipment, enterprise storage and servers, factory automation, displays, optical mice and printers.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States, or GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual

of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. Our critical accounting policies are those that affect our historical financial statements materially and involve difficult, subjective or complex judgments by management. Those policies include revenue recognition, valuation of long-lived assets, intangible assets and goodwill, inventory valuation and warranty reserves, accounting for income taxes, retirement and post-retirement benefit plan assumptions, and share-based compensation.

There have been no significant changes in our critical accounting policies during the quarter ended January 29, 2012 compared to those previously disclosed in “Critical Accounting Policies and Estimates” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2011 Annual Report on Form 10-K.

Table of Contents

## Results from Operations

Quarter Ended January 29, 2012 Compared to Quarter Ended January 30, 2011

The following table sets forth our results of operations for the quarters ended January 29, 2012 and January 30, 2011.

	Quarter Ended		January 29, 2012	January 30, 2011	January 29, 2012	January 30, 2011
	January 29, 2012	January 30, 2011				
	(In millions)		(As a percentage of net revenue)			
Statements of Operations Data:						
Net revenue	\$ 563	\$ 550	100	% 100		%
Cost of products sold:						
Cost of products sold	279	265	50		48	
Amortization of intangible assets	14	14	2		3	
Total cost of products sold	293	279	52		51	
Gross margin	270	271	48		49	
Research and development	82	73	15		13	
Selling, general and administrative	50	50	9		9	
Amortization of intangible assets	5	6	1		1	
Restructuring charges	1	—	—		—	
Total operating expenses	138	129	25		23	
Income from operations	132	142	23		26	
Interest expense	(1	) (3	) —		(1	)
Loss on extinguishment of debt	—	(19	) —		(3	)
Other expense, net	(1	) —	—		—	
Income before income taxes	130	120	23		22	
Provision for income taxes	5	1	1		—	
Net income	\$ 125	\$ 119	22	% 22		%

Net revenue. Net revenue was \$563 million for the quarter ended January 29, 2012, compared to \$550 million for the quarter ended January 30, 2011, an increase of \$13 million or 2%. The slight increase in net revenue was primarily due to strength in the wireless communication target markets, largely offset by continued weakness in our industrial target market.

Our three largest target markets, by revenue, are wireless communications, wired infrastructure and industrial and automotive electronics, with computer and consumer computing peripherals typically representing a much smaller percentage of our overall net revenue. The percentage of total net revenue generated by sales in each of our target markets varies from quarter to quarter, due largely to fluctuations in end-market demand, including the effects of seasonality. The first fiscal quarter is typically our lowest revenue and cash generating quarter due, in part, to holiday shut downs at many original equipment manufacturer, or OEM, customers and distributors, and the first half of the fiscal year tends to generate lower revenue than the second half. However, typical seasonality and industry cyclicality may be overshadowed by other factors such as wider macroeconomic effects and timing of significant product launches by large OEMs. In the first quarter of fiscal year 2012, strength in the smartphone market and strong sales to a particular OEM more than offset the typical seasonal trend in revenue from our wireless target market. Weakness in industrial spending, in China in particular, together with the recent flooding in Thailand, a critical area for manufacturing many components important for the semiconductor supply chain, adversely impacted revenue from our industrial target market in the first quarter of fiscal year 2012. Our capacity mitigation plan to relocate production from areas affected by the flooding is now largely complete.

Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. During the quarter ended January 29, 2012, Foxconn Technology Group companies accounted for 17% of our net revenue and our top 10 customers, which included three distributors, collectively accounted for 62% of our net revenue. However, we believe that aggregate sales of our products to certain of our customers exceeds the amount of our direct sales to them. For example, we believe our aggregate sales to two OEMs when direct sales are combined

with indirect sales to them through the respective contract manufacturers that they utilize, each accounted for more than 10% of our net revenues, respectively, for the quarter ended January 29, 2012. We expect to continue to experience significant customer concentration in future periods.

Table of Contents

Net revenue by target market data is derived from our understanding of our end customers' primary markets, and was as follows:

% of net revenue	Quarter Ended		Change	
	January 29, 2012	January 30, 2011		
Wireless communications	45	% 37	% 8	%
Wired infrastructure	29	28	1	
Industrial and automotive electronics	20	30	(10	)
Consumer and computing peripherals	6	5	1	
Total net revenue	100	% 100	%	

Net revenue (in millions)	Quarter Ended		Change	
	January 29, 2012	January 30, 2011		
Wireless communications	\$254	\$202	\$52	
Wired infrastructure	162	153	9	
Industrial and automotive electronics	114	166	(52	)
Consumer and computing peripherals	33	29	4	
Total net revenue	\$563	\$550	\$13	

Net revenue from our wireless communications target market increased substantially in the first quarter of fiscal year 2012 compared with the corresponding prior year period due to continued strength in mobile smartphone sales. New product ramps at major smartphone OEMs drove revenue growth during the first quarter of fiscal year 2012. We experienced higher demand for our multi-mode, multi-band power amplifiers, in particular, as well as for our FBAR duplexers in the quarter ended January 29, 2012.

Net revenue from our wired infrastructure target market increased slightly, in the first quarter of fiscal year 2012, compared with the corresponding prior year period, as spending on core routing continued to improve. During the first quarter of fiscal year 2012, we saw strong growth from sales of our proprietary parallel optics used in core routing environments and data center applications compared to the first quarter of fiscal year 2011. However this was partially offset by a supply chain correction amongst several OEMs in the wired infrastructure market.

Net revenue from our industrial and automotive electronics target market decreased in the first quarter of fiscal year 2012 compared with the corresponding prior year period. This decrease was due primarily to continued and worse than expected supply chain corrections, weakness in industrial spending, in China in particular, softness in distributor resales and weaker OEM demand during the first quarter of fiscal year 2012, compared with the same period in fiscal year 2011. The flooding in Thailand impacted the manufacturing of certain products we sell into our industrial target market during the quarter ended January 29, 2012, which also contributed to the decrease in revenues from this target market in the quarter.

Net revenue from our consumer and computing peripheral target market increased in the first quarter of fiscal year 2012 compared with the corresponding period in 2011, due primarily to a sale of certain of our intellectual property. However, net revenue from this target market during both these periods continued to be adversely affected by ongoing softness in demand for personal computers and printers.

Gross margin. Gross margin was \$270 million for the quarter ended January 29, 2012 compared to \$271 million for the quarter ended January 30, 2011, a slight decrease of \$1 million. As a percentage of net revenue, gross margin decreased slightly to 48% for the quarter ended January 29, 2012 from 49% for the quarter ended January 30, 2011. The decrease in gross margin, compared to the first quarter of fiscal year 2011, was primarily attributable to a less profitable product mix, with a higher proportion of our net revenues coming from products sold into our wireless communication target market while net revenues from our higher-margin industrial and automotive electronics products decreased significantly in the quarter. A decrease in revenue from research and development projects in the quarter also contributed to the decrease in gross margin. The impact of these factors was partially offset by a sale of intellectual property in the quarter ended January 29, 2012, a decrease in depreciation expense resulting from a change in the duration of the useful lives of certain of our manufacturing equipment which occurred in the fourth quarter of

fiscal year 2011, and a revision in cost allocation methodology. During the quarter ended January 29, 2012, we revised our cost allocation methodology to fully burden with overhead costs the expense for wafers used in research and development projects that are processed through our internal fabrication facilities. This change increased gross margin (as well as research and development expense) in the first quarter of fiscal year 2012 compared to the corresponding prior year period. The negative impact of the additional spending from the flooding in Thailand was mostly offset by insurance proceeds received during the quarter ended January 29, 2012.

Table of Contents

Research and development. Research and development expense was \$82 million for the quarter ended January 29, 2012, compared to \$73 million for the quarter ended January 30, 2011, an increase of \$9 million or 12%. The majority of this increase resulted from investments in our wired infrastructure and wireless communications solutions. As a percentage of net revenue, research and development expenses increased slightly to 15% for the quarter ended January 29, 2012, compared to 13% for the quarter ended January 30, 2011. Part of the increase in absolute dollars was attributable to a \$3 million increase in research and development project consumables and test hardware as a result of the change in cost allocation methodology for wafers processed in our internal fabrication facilities and used in research and development projects, as discussed above under gross margin, which increased gross margin by a corresponding amount. The increase in research and development expense was also attributable to a \$2 million increase in accrued incentive compensation expense due to an increase in salary base, a \$1 million increase in share-based compensation expense attributable to grants of share-based awards at higher fair market values and to our Employee Share Purchase Plan, or ESPP, and a \$2 million increase in depreciation expense related to capital expenditures supporting research and development efforts, partially offset by a \$1 million decrease in vacation expense compared to the quarter ended January 30, 2011. The overall increase in research and development expense is net of \$2 million in accrued reimbursements pursuant to research and development grants.

Selling, general and administrative. Selling, general and administrative expense was \$50 million for both the quarter ended January 29, 2012 and the quarter ended January 30, 2011. As a percentage of net revenue, selling, general and administrative also remained flat at 9%. However, changes in components of selling general and administrative expense for the quarter ended January 29, 2012 consisted of a \$3 million increase in share-based compensation expense attributable to grants of share-based awards at higher fair market values and to our ESPP and a \$2 million increase in accrued incentive compensation expense, offset by a \$2 million decrease in legal expenses related to offensive litigation matters initiated in fiscal year 2010, a \$1 million decrease in depreciation expense, a \$1 million decrease in vacation expense and a \$1 million decrease in outsourced third party information technology expense, compared to the quarter ended January 30, 2011.

Amortization of intangible assets. Total amortization of intangible assets incurred were \$19 million and \$20 million for the quarters ended January 29, 2012 and January 30, 2011, respectively.

Restructuring charges. We incurred \$1 million in restructuring charges for the quarter ended January 29, 2012. There were no restructuring charges for the quarter ended January 30, 2011.

Interest expense. Interest expense was \$1 million for the quarter ended January 29, 2012, representing ongoing commitment fees related to our revolving credit facility, compared to \$3 million for the quarter ended January 30, 2011. The decrease was primarily due to the redemption of the remaining \$230 million aggregate principal amount of our outstanding senior subordinated notes in the quarter ended January 30, 2011.

Loss on extinguishment of debt. During the quarter ended January 30, 2011, we redeemed \$230 million aggregate principal amount of our senior subordinated notes. The redemption of the senior subordinated notes resulted in a loss on extinguishment of debt of \$19 million. See Note 5 to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Other income (expense), net. Other income (expense), net includes interest income, foreign currency gains (losses) on balance sheet remeasurement and other miscellaneous items. Other expense, net was \$1 million for the quarter ended January 29, 2012. The increase to other expense, net for the quarter ended January 29, 2012, compared to other expense, net for the quarter ended January 30, 2011 is primarily attributable to an \$1 million impairment of a cost method investment and a \$1 million impairment of a loan to the same cost method investee, as well as an \$1 million increase in foreign currency losses, partially offset by a \$2 million allocation of insurance proceeds received relating to claims arising out of the flooding in Thailand.

Provision for income taxes. We recorded an income tax provision of \$5 million for the quarter ended January 29, 2012 compared to \$1 million for the quarter ended January 30, 2011. The tax expense for the quarter ended January 30, 2011 included a benefit of \$3 million from U.S. legislation enacted in the first quarter of fiscal year 2011 retroactively reinstating the research and development tax credit. The remaining difference of \$1 million is primarily due to change in the jurisdictional mix of income in the quarter.

Backlog



Our sales are generally made pursuant to short-term purchase orders. These purchase orders are made without deposits and may be rescheduled, canceled or modified on relatively short notice, and in most cases without substantial penalty. Therefore, we believe that purchase orders or backlog are not a reliable indicator of future sales.

Seasonality

We are affected by seasonal trends in the semiconductor and related industries. We typically experience sequentially lower revenues in the first half of the fiscal year. Our revenue in the second half of the fiscal year is typically higher than our revenue in the first half of the fiscal year due to seasonality in two of our target markets, wireless communications and consumer and computing peripherals. These target markets typically experience seasonality due to the “back to school” and calendar year-end holiday selling seasons, although macroeconomic effects and other factors such as significant product launches by large OEMs

Table of Contents

can overshadow or mute typical seasonal effects.

**Liquidity and Capital Resources**

Our primary sources of liquidity as at January 29, 2012 consisted of: (1) approximately \$819 million in cash and cash equivalents, (2) cash we expect to generate from operations and (3) our \$200 million revolving credit facility, which is committed until March 31, 2015, all of which is available to be drawn.

Our short-term and long-term liquidity requirements primarily arise from: (i) working capital requirements, (ii) research and development and capital expenditure needs, including acquisitions from time to time and (iii) quarterly dividend payments (if and when declared by our Board) and any share repurchases we may choose to make under our share repurchase program. Our ability to fund these requirements will depend on our future cash flows, which are determined by future operating performance and are, therefore, subject to prevailing global macroeconomic conditions and financial, business and other factors, some of which are beyond our control.

If we do not retain a sufficient amount of cash to fund our operations or finance growth opportunities, including acquisitions, or unanticipated capital expenditures, our financial condition and our business could suffer. We may seek to obtain debt or equity financing in the future. However, we cannot assure that such additional financing will be available on terms acceptable to us or at all. Our ability to service any indebtedness we may incur, under our revolving credit facility, or otherwise, will also depend on our ability to generate cash in the future.

In June 2011, our board of directors authorized the repurchase of up to 15 million of the Company's outstanding ordinary shares, not to exceed \$500 million, in the aggregate, in open market transactions prior to the date on which the 2012 annual general meeting of shareholders, or AGM, of the Company is held or is required by law to be held. Our 2012 AGM is scheduled to be held on April 4, 2012, at which time this share repurchase program will terminate. During the quarter ended January 29, 2012, we repurchased 2.6 million shares at an aggregate purchase price of \$79 million, pursuant to this authorization.

On March 7, 2012, the Board declared an interim cash dividend on the Company's ordinary shares of \$0.13 per share, payable on March 30, 2012 to shareholders of record at the close of business (5:00 p.m.), Eastern Time, on March 19, 2012.

Our cash and cash equivalents decreased by \$10 million to \$819 million at January 29, 2012 from \$829 million at October 30, 2011. The decrease was attributable to \$79 million of cash paid to repurchase 2.6 million of our ordinary shares, \$47 million cash paid for capital expenditures, and \$29 million in dividends paid to our shareholders. The decrease was partially offset by \$139 million cash provided by operating activities and \$5 million in cash received from the issuance of ordinary shares under our employee share option plans and employee share purchase plans. We believe that our cash and cash equivalents on hand, and cash flows from operations, combined with availability under our revolving credit facility, will provide sufficient liquidity to fund our current obligations, projected working capital requirements, capital spending, quarterly dividends (if and when declared by our Board) and any share repurchases we may choose to make under our share repurchase program for at least the next 12 months. We anticipate that our capital expenditures for fiscal year 2012 will be significantly higher than for fiscal year 2011, due primarily to spending on capacity expansion in our Fort Collins internal fabrication facility, as well as spending on equipment to support various research and development projects. If we do not have sufficient cash to fund our operations or finance growth opportunities, including acquisitions, or unanticipated capital expenditures, our business and financial condition could suffer. We could also reduce certain expenditures such as repurchases of our ordinary shares and payment of our quarterly dividend. In such circumstances we may seek to obtain debt or equity financing in the future. However, we cannot assure that such additional financing will be available on terms acceptable to us or at all. Our ability to service any indebtedness we may incur, including under our revolving credit facility, will depend on our ability to generate cash in the future. In addition, even though we may not need additional funds, we may still elect to sell additional debt or equity securities or increase our current credit facility for other reasons.

In summary, our cash flows were as follows (in millions):

	Quarter Ended	
	January 29, 2012	January 30, 2011
Net cash provided by operating activities	\$139	\$67

Edgar Filing: Avago Technologies LTD - Form 10-Q

Net cash used in investing activities	(47	) (41	)
Net cash used in financing activities	(102	) (224	)
Net decrease in cash and cash equivalents	\$(10	) \$(198	)

21

---

Table of Contents

Cash Flows for the Quarter Ended January 29, 2012 and January 30, 2011

Operating Activities

Net cash provided by operating activities during the quarter ended January 29, 2012 was \$139 million. The net cash provided by operating activities was principally due to net income of \$125 million, which includes \$6 million of insurance proceeds received in respect of claims relating to the flooding in Thailand, and non-cash charges of \$50 million, partially offset by changes in operating assets and liabilities of \$36 million. The non-cash charges of \$50 million included \$37 million for depreciation and amortization and \$11 million of share-based compensation.

Accounts receivable decreased to \$308 million at the end of the first quarter of fiscal year 2012 from \$328 million at the end of fiscal year 2011. The number of days sales outstanding increased to 50 days at January 29, 2012 from 48 days at October 30, 2011 due to customers' Lunar New Year holiday schedules. We use the current quarter revenue and accounts receivable at quarter end in our calculation of number of days sales outstanding.

Inventory decreased slightly to \$193 million at January 29, 2012 from \$194 million at the end of fiscal year 2011. However, the number of days of inventory on hand increased to 63 days at January 29, 2012 compared to 58 days at October 30, 2011 due to the decrease in product sales in the first quarter of fiscal year 2012. We use the current quarter cost of products sold and inventory at quarter end in our calculation of days on hand of inventory.

Current liabilities decreased to \$314 million at January 29, 2012 from \$350 million at the end of fiscal year 2011 primarily due to a decrease in employee compensation and benefits accruals. Employee compensation and benefits accruals decreased to \$51 million at January 29, 2012 from \$89 million at fiscal year 2011 mainly due to payments made under our employee bonus plan in respect of fiscal year 2011 performance.

Net cash provided by operating activities during the quarter ended January 30, 2011 was \$67 million. The net cash provided by operating activities was principally due to net income of \$119 million and non-cash charges of \$59 million, partially offset by changes in operating assets and liabilities of \$111 million. The non-cash charges of \$59 million included \$41 million for depreciation and amortization, \$7 million of share-based compensation and \$5 million of debt issuance costs written off in connection with our debt redemption. Net income was also reduced by \$14 million for the premium paid on our debt redemption which is included in the \$19 million loss on extinguishment of debt in the unaudited condensed consolidated statement of operations.

Accounts receivable increased to \$291 million at the end of the first quarter of fiscal year 2011 from \$285 million at the end of fiscal year 2010. The number of days sales outstanding increased to 48 days at January 30, 2011 from 45 days at October 31, 2010 due to linearity of revenue.

Inventory increased to \$203 million at January 30, 2011 from \$189 million at the end of fiscal year 2010. The number of days of inventory on hand increased to 70 days at January 30, 2011 compared to 61 days at October 31, 2010. In order to secure adequate supply of certain components to meet expected increases in demand, in fiscal year 2010 we entered into purchase commitments with suppliers of certain components. Scheduled deliveries of these components during the fourth quarter of fiscal year 2010 and the first quarter of fiscal year 2011 resulted in a higher level of parts in inventory at the end of the first quarter of fiscal year 2011.

Current liabilities decreased to \$237 million at the end of the first quarter of fiscal year 2011 from \$565 million at the end of fiscal year 2010, mainly due to the redemption of \$230 million of long-term debt that was classified as current at October 31, 2010 (as it had been irrevocably called for redemption before the fiscal year end) and decreases in accounts payable, employee compensation and benefits accruals and accrued interest. Accounts payable decreased to \$156 million from \$198 million at the end of fiscal year 2010 mainly due to timing of disbursements. Employee compensation and benefits decreased to \$51 million from \$82 million at fiscal year 2010 mainly due to payments made under our employee bonus plan in respect of fiscal year 2010 performance. Accrued interest decreased to less than \$1 million from fiscal year 2010 mainly due to the debt redemption and semi-annual interest payments made during the first quarter of fiscal year 2011.

Investing Activities

Net cash used in investing activities for the quarter ended January 29, 2012 was \$47 million, due to purchases of property, plant and equipment in connection with the expansion of our manufacturing facilities in Fort Collins, Colorado.

## Edgar Filing: Avago Technologies LTD - Form 10-Q

Net cash used in investing activities for the quarter ended January 30, 2011 was \$41 million, due to purchases of property, plant and equipment of \$32 million and \$8 million related to a business acquisition completed in the quarter.

### Financing Activities

Net cash used in financing activities for the quarter ended January 29, 2012 was \$102 million. The net cash used in financing activities was principally due to an aggregate of \$29 million in payments of cash dividends to shareholders and the payment of an aggregate of \$79 million to repurchase and cancel 2.6 million shares of our ordinary shares under our share repurchase program. This was partially offset by \$5 million in net proceeds provided by the exercise of options.

Table of Contents

Net cash used in financing activities for the quarter ended January 30, 2011 was \$224 million. The net cash used in financing activities was principally due to the redemption of the remaining \$230 million in principal amount of senior subordinated notes and \$17 million in payments of cash dividends to shareholders, partially offset by \$22 million provided by the issuance of ordinary shares upon the exercise of options.

Indebtedness

As of January 29, 2012, we had \$5 million of capital lease obligations. At such date, we also had \$200 million of borrowing capacity available under our revolving credit facility. We had no borrowings outstanding under our revolving credit facility as of January 29, 2012.

Contractual Commitments

See Note 11 to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q. There were no other substantial changes to our contractual commitments during the first quarter of fiscal year 2012 from those disclosed in our 2011 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at January 29, 2012 as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Indemnifications

See Note 11 to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Accounting Changes and Recent Accounting Standards

For a description of accounting changes and recent accounting standards, including the expected dates of adoption and estimated effects, if any, on our unaudited consolidated condensed financial statements, see Note 1 to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information presented in Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk," in our 2011 Annual Report on Form 10-K other than those noted below.

Foreign Currency Derivative Instruments

Losses from foreign currency transactions, as well as derivative instruments, were included in our unaudited consolidated statements of operations in the amounts \$1 million, for the quarter ended January 29, 2012, compared to less than \$1 million, for the quarter ended January 30, 2011.

European Debt Exposures

We actively monitor our exposure to the European financial markets, including the impact of sovereign debt issues. We also mitigate our risk by investing in fixed deposits with various financial institutions and we limit the amount we hold with any one institution. We do not have any direct investments in the sovereign debt of European countries. From time to time, we may have deposits with major European financial institutions. As of January 29, 2012, we do not believe that we have any material direct or indirect exposure to the European financial markets.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, evaluated the effectiveness of our disclosure controls and procedures as of January 29, 2012. We maintain disclosure controls and procedures that are intended to ensure that the information required to be disclosed in our Exchange Act filings is properly and timely recorded, processed, summarized and reported. These disclosure controls and procedures are also intended to ensure that information is accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures. Based on this evaluation, our CEO and CFO concluded that, as of January 29, 2012, our disclosure controls and procedures were effective at the reasonable assurance level.

In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

(b) Changes in Internal Controls Over Financial Reporting. There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has 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 involved in litigation that we believe is of the type common to companies engaged in our line of business, including commercial disputes and employment issues. As of the date of this filing, we are not involved in any pending legal proceedings that we believe would likely have a material adverse effect on our financial condition, results of operations or cash flows. However, certain pending disputes involve claims by third parties that our activities infringe their patent, copyright, trademark or other intellectual property rights. These claims generally involve the demand by a third-party that we cease the manufacture, use or sale of the allegedly infringing products, processes or technologies and/or pay substantial damages or royalties for past, present and future use of the allegedly infringing intellectual property. For example, on July 23, 2009, TriQuint Semiconductor, Inc. filed a complaint against us and certain of our subsidiaries in the U.S. District Court, District of Arizona seeking declaratory judgment that four of our patents relating to RF filter technology used in our wireless products are invalid and, if valid, that TriQuint's products do not infringe any of those patents. TriQuint has withdrawn those claims with respect to three of those four patents. In addition, TriQuint claims that certain of our wireless products infringe three of its patents. TriQuint is seeking damages in an unspecified amount, treble damages for alleged willful infringement, attorneys' fees and injunctive relief. We filed our answer and initial counterclaim on September 17, 2009, denying infringement, asserting the invalidity of TriQuint's patents and asserting infringement by TriQuint of ten Avago patents, and filed additional counterclaims on March 25, 2010 for the misappropriation of Avago trade secrets. On October 16, 2009, TriQuint filed its answer to our initial counterclaim, denying infringement and filed an antitrust counterclaim and counterclaims for declaratory judgment of non infringement and invalidity. The court dismissed TriQuint's antitrust counterclaims on procedural grounds on March 16, 2010, but on August 3, 2010 granted TriQuint's motion to file an amended pleading for its anti-trust claims. We intend to defend this lawsuit vigorously, and future actions may include the assertion by us of additional claims or counterclaims against TriQuint related to our intellectual property portfolio. Summary judgment motions were heard on January 30, 2012 ruled on in February 2012. The Court has set a trial date of July 10, 2012.

Claims that our products or processes infringe or misappropriate any third-party intellectual property rights (including claims arising through our contractual indemnification of our customers) often involve highly complex, technical issues, the outcome of which is inherently uncertain. Moreover, from time to time we pursue litigation to assert our intellectual property rights. Regardless of the merit or resolution of any such litigation, complex intellectual property litigation is generally costly and diverts the efforts and attention of our management and technical personnel.

Item 1A. Risk Factors

A description of some of the primary risk factors associated with our business is set forth below. We review and, where applicable, update our risk factors each quarter. The description set forth below supersedes the description of the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended October 30, 2011. These risk factors, which could materially affect our business, financial conditions or results of operations, are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition or results of operations.

Risks Related to Our Business

Adverse global economic conditions could have a negative effect on our business, results of operations and financial condition and liquidity.

Adverse global economic conditions have from time to time caused or exacerbated significant slowdowns in the semiconductor industry generally, as well as in our target markets. The global recession in 2008 and 2009 led to reduced customer spending in the semiconductor market and in our target markets, caused U.S. and foreign businesses to slow spending on our products and caused consumers to reduce spending on many products our customers make, such as personal computers, mobile phone and flat screen televisions. In recent months, market and business conditions in general have been adversely affected by investor and customer concerns and about the global economic outlook, including concerns about the economic recovery in the United States and the ongoing sovereign debt crisis in Europe. A slowdown in the economic recovery or worsening global economic conditions as a result of these or other factors will likely cause our customers and consumers to reduce or delay spending, and could lead to the insolvency of



key suppliers (resulting in product delays) and customers, all of which could negatively affect our business, financial condition and result of operations.

We operate in the highly cyclical semiconductor industry, which is subject to significant downturns.

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change and price erosion, evolving technical standards, short product life cycles (for semiconductors and for the end-user products in which they are used) and wide fluctuations in product supply and demand. From time to time, these and other factors, together with changes in general economic conditions, cause significant upturns and downturns in the industry in general and in our business

Table of Contents

in particular. Periods of industry downturns have been characterized by diminished demand for end-user products, high inventory levels and periods of inventory adjustment, under-utilization of manufacturing capacity, changes in revenue mix and accelerated erosion of average selling prices, resulting in an adverse effect on our business, financial condition and results of operations. We expect our business to continue to be subject to cyclical downturns even when overall economic conditions are relatively stable. In addition, in any future economic downturn we may be unable to grow our revenues or reduce our costs quickly enough to maintain our operating profitability.

Our operating results are subject to substantial quarterly and annual fluctuations.

Our revenues and operating results have fluctuated in the past and are likely to fluctuate in the future. These fluctuations may occur on a quarterly and 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 timing of 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;
- changes in our product mix or customer mix and their effect on our gross margin;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- the timing and extent of product development costs and revenues;
- new product announcements and introductions by us or our competitors;
- incurrence of research and development and related new product expenditures, and the timing of any research and development grant monies;
- seasonality or cyclical fluctuations in our markets;
- currency fluctuations;
- utilization of our internal manufacturing facilities;
- fluctuations in manufacturing yields;
- significant warranty claims, including those not covered by our suppliers or our insurers;
- availability and cost of raw materials from our suppliers;
- intellectual property disputes and associated litigation expenses;
- loss of key personnel or the shortage of available skilled workers;
- the effects of competitive pricing pressures, including decreases in average selling prices of our products; and
- changes in our tax incentive arrangements or structure, which may adversely affect our net tax expense in any quarter in which such an event occurs.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly or annual operating results. In addition, a significant amount of our operating expenses are relatively fixed in nature due to our significant sales, research and development and internal manufacturing overhead costs. Any failure to adjust spending quickly enough to compensate for a revenue shortfall could magnify the adverse impact of such revenue shortfall on our results of operations. As a result, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be meaningful or a reliable indicator of our future performance. If our operating results in one or more future quarters fail to meet the expectations of securities analysts or investors, an immediate and significant decline in the trading price of our ordinary shares may occur.

If we do not adapt to technological changes in the semiconductor industry, we could lose customers or market share.

The semiconductor industry is subject to constant and rapid changes in technology, frequent new product introductions, short product life cycles, rapid product obsolescence and evolving technical standards. Technological developments may reduce the competitiveness of our products and require unbudgeted upgrades that could be expensive and time consuming to implement. Our products could become obsolete sooner than we expect because of faster than anticipated, or unanticipated, changes in one or more of the technologies related to our products.

Furthermore, we continually evaluate expenditures for



Table of Contents

research and development and must choose among alternative technologies based on our expectations of future market growth and other factors. We may be unable to develop and introduce new or enhanced products that satisfy customer requirements and achieve market acceptance in a timely manner or at all, the technologies where we have focused our research and development expenditures may not become commercially successful, and we may be unable to anticipate new industry standards and technological changes. We also may not be able to respond successfully to new product announcements and introductions by competitors. If we fail to adapt successfully to technological changes or fail to obtain access to important new technologies, we may be unable to retain customers, attract new customers or sell new products to our existing customers.

Dependence on contract manufacturing and outsourcing other portions of our supply chain may adversely affect our ability to bring products to market and damage our reputation.

We operate a primarily outsourced manufacturing business model that principally utilizes third-party foundry and assembly and test capabilities. As a result, we are highly reliant on third-party foundry wafer fabrication capacity, including sole- or single-sourcing for many components or products. For certain of our product families, substantially all of our revenue from those products is derived from semiconductors fabricated by external foundries such as Taiwan Semiconductor Manufacturing Company Ltd. and WIN Semiconductor Corp. We also use third-party contract manufacturers for a significant majority of our assembly and test operations, including Amertron Incorporated, the Hana Microelectronics Public Company Ltd. group of companies and Hisense Multimedia Broadband Technologies (HK) Co., Ltd. The ability and willingness of our contract manufacturers to perform is largely outside of our control. If one or more of our contract manufacturers or other outsourced providers 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. If one of our suppliers, particularly a sole- or single-source supplier, ceases to, or is unable to, manufacture such a component or supply is otherwise constrained, we may be forced to re-engineer a product or we may fail to meet customer demand. In addition to discontinuing parts, suppliers may also extend lead times, limit supplies or increase prices due to capacity constraints or other factors. For example, in the event that manufacturing capacity is reduced or eliminated at one or more facilities, including as a response to cycles in the semiconductor industry or as a result of unanticipated events such as natural disasters, manufacturing could be disrupted, we could have difficulties fulfilling our customer orders, which could result in the payment of significant damages by us to our customers, and our net revenue could decline. In addition, if these third parties on whom we are highly reliant fail to deliver quality products and components on time and at reasonable prices, we could have difficulties fulfilling our customer orders and our net revenue could decline. In such events, our business, financial condition and results of operations would be adversely affected.

In October 2011, Hana shut down its Ayutthaya facility in Thailand due to the severe flooding there. Hana manufactured several components for us at that facility, and was our only supplier for certain products for our industrial and wireless target markets. As a result of the flooding in Thailand we transferred the manufacturing of certain of our affected products to alternative locations with Hana and other contract manufacturers, resulting in additional expenses and capital expenditures not all of which was recovered under our insurance policies. We continue to review our supply chain on an ongoing basis and may seek to qualify second source manufacturers and suppliers for some components and products. Qualifying such second sources may be a lengthy and potentially costly process.

To the extent we rely on third-party manufacturing relationships, we face the following risks:

- inability of our manufacturers to develop manufacturing methods appropriate for our products, and manufacturers' lack of sufficient capacity, or their unwillingness to devote adequate capacity, to produce our products;
- product and manufacturing costs that are higher than anticipated;
- reduced control over product reliability and delivery schedules;
- more complicated supply chains; and
- time, expense and uncertainty in identifying and qualifying additional or replacement manufacturers.

Much of our outsourcing takes place in developing countries, and as a result may additionally be subject to geopolitical uncertainty. See “— 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.”

A prolonged disruption of our manufacturing facilities or other significant operations could have a material adverse effect on our business, financial condition and results of operations.

Although we operate using a primarily outsourced manufacturing business model, we do rely on the manufacturing facilities we own, in particular our fabrication facilities in Fort Collins, Colorado and Singapore. We maintain our internal fabrication facilities for products utilizing our innovative materials and processes, to protect our intellectual property and to develop the technology for manufacturing. A prolonged disruption or material malfunction of, interruption in, or the loss of operations at, one or more of our production facilities, especially our Fort Collins and Singapore facilities, or the failure to maintain our labor

Table of Contents

force at one or more of these facilities, would limit our capacity to meet customer demands and delay new product development until a replacement facility and equipment, if necessary, were found. The lease on our primary internal fabrication facility in Singapore expires in 2015. If we are unable to renew this lease on satisfactory terms, we would be required to locate suitable replacement premises, with the goal of ensuring a smooth transition between facilities on or prior to the expiration of our current lease. However, the replacement of this, or any other, manufacturing facility could take an extended amount of time and significant expenditures on our part before manufacturing operations could restart. While we would seek to minimize any disruption to our operations and supply chain associated with any such changes in manufacturing facilities, we may experience delays and significant costs resulting from these steps, which could have a material adverse effect on our business, financial condition and results of operations.

We are also dependent on various information technology systems, including, but not limited to, networks, applications, and outsourced services. We continually enhance and implement new systems and processes throughout our global operations. Failure of these systems to operate effectively, could disrupt our operations and materially and adversely affect our business, financial condition, and results of operations by harming our ability to accurately forecast sales demand, manage our supply chain and production facilities, fulfill customer orders, and report financial and management information on a timely and accurate basis.

Failure to adjust our supply chain volume due to changing market or other conditions or failure to accurately estimate our customers' demand could adversely affect our results of operations.

We make significant decisions, including determining the levels of business that we will seek and accept, production schedules, levels of reliance on contract manufacturing and outsourcing, personnel needs and other resource requirements, based on our estimates of customer requirements. The short-term nature of commitments by many of our customers and the possibility of rapid changes in demand for their products reduces our ability to accurately estimate future customer requirements. Our results of operations could be harmed if we are unable to adjust our supply chain volume to address market fluctuations, including those caused by the seasonal or cyclical nature of the markets in which we operate, or by other unanticipated events such as natural disasters. The sale of our products is dependent, to a large degree, on customers whose industries are subject to seasonal or cyclical trends in the demand for their products. For example, the consumer electronics market is particularly volatile and is subject to seasonality related to the holiday selling season, making demand difficult to anticipate.

Severe supply chain disruptions, such as those caused by large scale natural disasters, can adversely affect our, and our customers', ability to source materials and components needed to manufacture products. In such event, even if we are able to promptly resume production of our affected products, if our customers cannot timely resume their own manufacturing following such an event, they may cancel or scale back their orders from us and this may in turn adversely affect our results of operations.

On occasion, customers may require rapid increases in production, which can challenge our resources and reduce margins. During a market upturn, for example, we may not be able to purchase sufficient supplies or components or secure sufficient contract manufacturing capacity, to meet increasing product demand. This could harm our reputation, prevent us from taking advantage of opportunities and reduce revenue growth. In addition, some parts are not readily available from alternate suppliers due to their unique design or the length of time necessary for design work.

In order to secure components for the production of our products, we may continue to enter into non-cancelable purchase commitments with vendors or make advance payments to suppliers, which could reduce our ability to adjust our inventory or expense levels to declining market demands. Prior commitments of this type have resulted in an excess of parts when demand for our products has decreased. Downturns in the semiconductor industry have in the past caused, and may in the future cause, our customers to reduce significantly the amount of products ordered from us. If demand for our products is less than we expect, we may experience excess and obsolete inventories and be forced to incur additional charges. Conversely, if OEMs order more of our products in any particular quarter than are ultimately required to satisfy end customer demand, inventories at these OEMs may grow in such quarter, which could adversely affect our product revenues in a subsequent quarter as such OEMs would likely reduce future orders until their inventory levels realign with end customer demand. In addition, because certain of our sales, research and development and internal manufacturing overhead expenses are relatively fixed, a reduction in customer demand may decrease our gross margins and operating income.

Our operating results and financial condition could be harmed if the markets into which we sell our products decline. Visibility into our markets is limited and any decline in our customers' markets would likely result in a reduction in demand for our products. In such an environment, pricing pressures could intensify and, if we were unable to respond quickly, could significantly reduce our gross margins. To the extent we cannot offset recessionary periods or periods of reduced growth that may occur in these markets through increased market share or otherwise, our net revenue may decline and our business, financial condition and results of operations may suffer. For example, we experienced a larger than expected decline in demand

Table of Contents

from our industrial target market towards the end of fiscal year 2011, which adversely affected our net revenues and gross margin. Pricing pressures and competition are especially intense in semiconductor-related industries, which could prevent achievement of our long-term financial goals and could require us to implement additional cost-cutting measures. Furthermore, industry growth rates may not be as forecasted, which could result in us spending on process and product development well ahead of market requirements, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Unless we and our suppliers continuously improve manufacturing efficiency and quality, our financial performance could be adversely affected.

Manufacturing semiconductors involves highly complex processes that require advanced equipment. We and our suppliers, as well as our competitors, continuously modify these processes in an effort to improve yields and product performance. Defects or other difficulties in the manufacturing process can reduce yields and increase costs. Our manufacturing efficiency will be an important factor in our future financial performance, and we may be unable to maintain or increase our manufacturing efficiency to the same extent as our competitors. For products that we outsource manufacturing, our product yields and performance will be subject to the manufacturing efficiencies of our third-party suppliers.

From time to time, we and our suppliers have experienced difficulty in beginning production at new facilities, transferring production to other facilities, achieving and maintaining a high level of process quality and effecting transitions to new manufacturing processes, all of which have caused us to suffer delays in product deliveries or reduced yields. We and our suppliers may experience manufacturing problems in achieving acceptable yields or experience product delivery delays in the future as a result of, among other things, capacity constraints, construction delays, transferring production to other facilities (as we may be required to do with our manufacturing facility in Singapore, in or prior to 2015), upgrading or expanding existing facilities or changing our process technologies, any of which could result in a loss of future revenues. Our results of operations could be adversely affected by any increase in costs related to increases in production capacity if revenues do not increase proportionately.

Winning business is subject to lengthy, competitive selection processes that require us to incur significant expense. 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 revenues from a product and adversely affect our results of operations.

We are focused on winning competitive bid selection processes, known as “design wins,” to develop semiconductors for use in our customers' products. These selection processes are typically lengthy and 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 many of our products will likely have very short life cycles. Failure to obtain a design win sometimes prevents us from offering an entire generation of a product. This can result in lost revenues and could weaken our position in future competitive selection processes.

After winning a product design, we may experience delays in generating revenue from our products as a result of the lengthy development cycle typically required, or may not realize as much revenue as we had anticipated. In addition, a delay or cancellation of a customer's plans could materially and adversely affect our financial results, as we may have incurred significant expense in the design process and generated little or no revenue. Customers could choose at any time to stop using our products or may fail to successfully market and sell their products, which could reduce demand for our products and materially adversely affect our business, financial condition and results of operations.

Finally, the timing of design wins is unpredictable and implementing production for a major design win or multiple design wins occurring at or around the same time may strain our resources and those of our contract manufacturers. In such event we may be forced to dedicate significant additional resources and incur additional, unanticipated costs and expenses to fulfill such design wins, which may have a material adverse effect on our results of operations.

We may be subject to claims of infringement of third-party intellectual property rights or demands that we license third-party technology, which could result in significant expense and loss of our intellectual property rights.

The semiconductor industry is characterized by companies holding large numbers of patents, copyrights, trademarks and trade secrets and by the vigorous pursuit, protection and enforcement of intellectual property rights, including



actions by patent-holding companies that do not make or sell products. From time to time, third parties assert against us and our customers and distributors their patent, copyright, trademark, trade secret and other intellectual property rights to technologies that are important to our business. For example, we are currently involved in a dispute with TriQuint Semiconductor, Inc., or TriQuint, in which, among other things, TriQuint is seeking a judgment that one of our patents relating to RF filter technology used in our wireless products is invalid and, if valid, that TriQuint's products do not infringe that patent, and is claiming that certain of our wireless products infringe three of its patents. See Part II, Item 1. "Legal Proceedings" above for additional information

Table of Contents

regarding this dispute.

Litigation or settlement of claims that our products or processes infringe or misappropriate these rights, regardless of their merit, are frequently costly and divert the efforts and attention of our management and technical personnel. In addition, many of our customer agreements, and in some cases our asset sale agreements, require us to indemnify our customers or purchasers for third-party intellectual property infringement claims, which have required and may in the future require that we defend those claims, and might require that we pay damages in the case of adverse rulings. Claims of this sort could also harm our relationships with our customers and might deter future customers from doing business with us. We do not know whether we will prevail in such 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 past, present and future use of the infringing technology;
- expend significant resources to develop non-infringing technology;
- license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all;
- enter into cross-licenses with our competitors, which could weaken our overall intellectual property portfolio and our ability to compete in particular product categories;
- indemnify customers or distributors;
- pay substantial damages to our customers or end users to discontinue use or replace infringing technology with non-infringing technology; or
- relinquish intellectual property rights associated with one or more of our patent claims, if such claims are held invalid or otherwise unenforceable.

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 or fail to protect our intellectual property, our business could be adversely affected.

Our success depends in part upon protecting our intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, copyrights, trademarks, trade secrets and similar intellectual property, as well as customary contractual protections with our customers, suppliers, employees and consultants. We may be required to spend significant resources to monitor and protect our intellectual property rights, and even with significant expenditures we may not be able to protect our intellectual property rights valuable to our business. We are unable to predict that:

- intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged, or, in the case of third-party intellectual property rights, licensed or sub-licensed to us, be licensed to others;
- our intellectual property rights will provide competitive advantages to us;
- rights previously granted by third parties to intellectual property rights licensed or assigned to us, including portfolio cross-licenses, will not hamper our ability to assert our intellectual property rights against potential competitors or hinder the settlement of currently pending or future disputes;
- any of our pending or future patent, trademark or copyright applications will be issued or have the coverage originally sought; or
- our intellectual property rights will be enforced in certain jurisdictions where competition may be intense or where legal protection may be weak.

In addition, our competitors or others may develop products or technologies that are similar or superior to our products or technologies, duplicate our products or technologies or design around our protected technologies. Effective patent, trademark, copyright and trade secret protection may be unavailable or more limited in one or more relevant jurisdictions, relative to those protections available in the United States, may not be applied for or may be abandoned in one or more relevant jurisdictions. We may elect to abandon or divest patents or otherwise not pursue prosecution of certain pending patent applications due to strategic concerns or other factors. From time to time we

pursue litigation to assert our intellectual property rights, including, in some cases, against third parties with whom we have ongoing relationships, such as customers and suppliers, and third parties may pursue litigation against us. An adverse decision in such types of legal action could limit our ability to assert our

Table of Contents

intellectual property rights and limit the value of our technology, including the loss of opportunities to sell or license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others. In addition, such legal actions or adverse decisions could otherwise negatively impact our business, financial condition and results of operations.

From time to time we may need to obtain additional intellectual property licenses or renew existing license agreements. We are unable to predict whether these license agreements can be obtained or renewed on acceptable terms or at all.

Competition in our industry could prevent us from growing our revenue and from raising prices to offset increases in costs.

The global semiconductor market is highly competitive. We compete in different target markets to various degrees on the basis of, among other things, quality, technical performance, price, product features, product system compatibility, system-level design capability, engineering expertise, responsiveness to customers, new product innovation, product availability, delivery timing and reliability, and customer sales and technical support. Current and prospective customers for our products evaluate our capabilities against the merits of our direct competitors. Some of our competitors are well established, have a more extensive product portfolio, have substantially greater market share and manufacturing, financial, research and development and marketing resources to pursue development, engineering, manufacturing, marketing and distribution of their products. In addition, many of our competitors have longer independent operating histories, greater presence in key markets, more comprehensive patent protection and greater name recognition. We compete with integrated device manufacturers, or IDMs, and fabless semiconductor companies as well as the internal resources of large, integrated OEMs. Our competitors range from large, international companies offering a wide range of semiconductor products to smaller companies specializing in narrow markets. We expect competition in the markets in which we participate to continue to increase as existing competitors improve or expand their product offerings. In addition, companies not currently in direct competition with us may introduce competing products in the future. Because our products are often building block semiconductors providing functions that in some cases can be integrated into more complex integrated circuits, or ICs, we also face competition from manufacturers of ICs, as well as customers that develop their own IC 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. The actions of our competitors, particularly in the area of pricing, can have a substantial adverse impact on our revenues, and potentially on revenues in specific industry end markets. In periods where the semiconductor industry experiences significant declines, manufacturers in financial difficulties or in bankruptcy may implement pricing structures designed to ensure short-term market share and near-term survival, rather than securing long-term viability. In addition, many of our competitors have substantially greater financial and other resources than us with which to withstand adverse economic or market conditions and any associated pricing actions of other market participants in the future.

We make substantial investments in research and development to improve existing and develop new technologies to remain competitive in our business and unsuccessful investments could materially adversely affect our business, financial condition and results of operations.

The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. In order to remain competitive, we have made significant investments in research and development and anticipate that we will need to maintain or increase our levels of research and development expenditures. We expect research and development expenses to increase in absolute dollars for the foreseeable future, due to the increasing complexity and number of products we plan to develop. The technologies where we have focused or may focus our research and development expenditures may not become commercially successful. Significant investments in unsuccessful research and development efforts could materially adversely affect our business, financial condition and results of operations. In addition, increased investments in research and development could cause our cost structure to fall out of alignment with demand for our products, which would have a negative impact on our financial results.

Our business would be adversely affected by the departure of existing members of our senior management team or if our senior management team is unable to effectively implement our strategy.

Our success depends, in large part, on the continued contributions of our senior management team, in particular, the services of Mr. Hock E. Tan, our President and Chief Executive Officer. None of our senior management is bound by written employment contracts to remain with us for a specified period. In addition, we do not currently maintain key person life insurance covering our senior management. The loss of any of our senior management could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate.

Table of Contents

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, legal and finance, and especially our design and technical personnel. We do not know whether we will be able to retain all of these employees as we continue to pursue our business strategy. We have historically encountered difficulties in hiring and retaining qualified engineers because there is a limited pool of engineers with expertise in analog and optoelectronic semiconductor design. Competition for such personnel is intense in the semiconductor industry, particularly in Southeast Asia where qualified engineers are currently in high demand. As the source of our technological and product innovations, our design and technical personnel represent a significant asset. The loss of the services of 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 recalls and product liability.

We are currently, and from time to time may be, subject to warranty or product liability claims that have lead, and may in the future lead, to significant expenses as we compensate affected customers for costs incurred related to product quality issues. Although we maintain reserves for reasonably estimable liabilities and purchase product liability insurance, our reserves may be inadequate to cover the uninsured portion of such claims. Conversely, in some cases, amounts we reserve may ultimately exceed our actual liability for particular claims and may need to be reversed. For example, in the second quarter of 2009 we identified a product quality issue with a particular component that we took steps to correct, including notifying our customers and offering to replace such components. We are continuing our discussions with affected customers regarding this issue, and have compensated or otherwise rectified the issue with many of those customers. Through January 29, 2012, we had recorded an aggregate of \$11 million in charges (including a reversal of warranty accrual of \$6 million in the year ended October 30, 2011) associated with this issue, and may incur additional charges as we continue to work with our customers to resolve the matter.

Although we maintain product liability insurance, such insurance is subject to significant deductibles and there is no guarantee that such insurance will be available or adequate to protect against all such claims, or we may elect to self-insure with respect to certain matters. We may incur costs and expenses in the event of any recall of a customer's product 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. Our customer contracts typically contain warranty and indemnification provisions, and in certain cases may also contain liquidated damages provisions, relating to product quality issues. The potential liabilities associated with such provisions are significant, and in some cases are potentially unlimited, and may greatly exceed any revenues we receive from such products. Costs, payments or damages incurred or paid by us in connection with warranty and product liability claims and product recalls could materially and adversely affect our financial condition and results of operations.

The complexity of our products could result in unforeseen delays or expenses or undetected defects or bugs, which could adversely affect the market acceptance of new products, damage our reputation with current or prospective customers, and materially and adversely affect our operating costs.

Highly complex products such as the products that we offer, may contain defects and bugs when they are first introduced or as new versions are released, or their release may be delayed due to unforeseen difficulties during product development. We have in the past experienced, and may in the future experience, these defects, bugs and delays. If any of our products contain defects or bugs, or have reliability, quality or compatibility problems, we may not be able to successfully design workarounds. 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, attract new customers, and our financial results. In addition, these defects or bugs could interrupt or delay sales to our customers. To resolve these problems, we may have to invest significant capital and other resources. Although our products are tested by our suppliers, our customers and ourselves, it is possible that our new products will contain defects or bugs. 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. For example, if a delay in the manufacture and delivery of our products causes the delay of a customer's product delivery, we may be required, under the terms of our agreement with that customer, to compensate the customer for the adverse effects of such delays. In addition, these problems may divert our technical and other resources from other development efforts, and we would likely lose, or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers. As a result, our financial results could be materially and adversely affected.

We are subject to currency exchange risks that could adversely affect our operations.

Although a majority of our revenue and operating expenses is denominated in U.S. dollars, and we prepare our financial

Table of Contents

statements in U.S. dollars in accordance with generally accepted accounting principles in the United States, or GAAP, a portion of our revenue and operating expenses is in foreign currencies. As a result, we are subject to currency risks that could adversely affect our operations, including:

- risks resulting from changes in currency exchange rates and the implementation of exchange controls; and
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries.

Changes in exchange rates will result in increases or decreases in our costs and earnings, and will also affect the book value of our monetary assets denominated in foreign currencies and the amount of our total shareholders' equity.

Although we seek to minimize our currency exposure by engaging in hedging transactions where we deem it appropriate, we do not know whether our efforts will be successful.

The demands or loss of one or more of our significant customers may adversely affect our business.

Some of our customers are material to our business and results of operations. During the quarter ended January 29, 2012, Foxconn Technology Group companies accounted for 17% of our net revenue and our top 10 customers, which included three distributors, collectively accounted for 62% of our net revenue. During fiscal year 2011, no direct customer accounted for 10% or more of our net revenue, but our top 10 customers, which included three distributors, collectively accounted for 54% of our net revenue. However, we believe that aggregate sales of our products to certain of our customers exceeds the amount of our direct sales to them. For example, we believe our aggregate sales to two OEMs, when direct sales are combined with indirect sales to them through the respective contract manufacturers that they utilize, each accounted for more than 10% of our net revenues, respectively, for the quarter ended January 29, 2012. Our top customers' purchasing power has, in some cases, given them the ability to make greater demands on us with regard to pricing and contractual terms in general. We expect this trend to continue, which may adversely affect our gross margins on certain products. In addition, we expect this will result in our results of operations becoming increasingly sensitive to deterioration in the financial condition of, or other adverse developments related to, one or more of our significant customers. Although we believe that our relationships with our major customers are good, we generally do not have long-term contracts with any of them, which is typical of our industry. As a result, although our customers provide indications of their product needs and purchases on an annual basis, they generally purchase our products on a weekly or daily basis and the relationship, as well as particular orders, can be terminated at any time. The loss of any of our major customers, or any substantial reduction in sales to any of these customers, could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks associated with our distributors' product inventories and product sell-through.

We sell many of our products to customers through distributors who maintain their own inventory of our products for sale to dealers and end users. We recognize revenues for sales to distributors upon delivery to the distributors. We limit distributor return rights and we allow limited price adjustments on sales to distributors. We provide reserves for distributor rights related to these limited stock returns and price adjustments. The timing and mix of payments and credits associated with such price adjustments could change over time, which could adversely affect our cash flows. Sales to distributors accounted for 29% and 37% of our net revenue for the quarter ended January 29, 2012 and fiscal year 2011, respectively.

If these distributors are unable to sell an adequate amount of their inventory of our products in a given quarter to dealers and end users or if they decide to decrease their inventories for any reason, such as due to adverse global economic conditions or due to any downturn in technology spending, our sales to these distributors and our revenues may decline. In addition, if distributors decide to purchase more inventory in any particular quarter, due to product availability or other reasons, than is required to satisfy end customer demand, inventory at our distributors may grow in such quarter, which could adversely affect our product revenues in a subsequent quarter as such distributors will likely reduce future orders until their inventory levels realign with end customer demand.

We also face the risk that our distributors may for other reasons have inventory levels of our products in excess of future anticipated sales. If such sales do not occur in the time frame anticipated by these distributors for any reason, these distributors may substantially decrease the amount of product they order from us in subsequent periods, which would harm our business.



Our reserve estimates associated with products stocked by our distributors are based largely on reports that our distributors provide to us on a monthly basis. To date, we believe this data has been generally 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.

Table of Contents

We generally do not have any long-term supply contracts with our contract manufacturers or materials suppliers and may not be able to obtain the products or raw materials required for our business, which could have a material adverse affect on our business.

We either obtain the products we need for our business from third-party contract manufacturers or we obtain the materials we need for our products from suppliers, some of which are our single source suppliers for these materials. We purchase a significant portion of our semiconductor materials and finished goods from a few suppliers and contract manufacturers. For the quarter ended January 29, 2012, we purchased 54% of the materials for our manufacturing processes from six suppliers. For fiscal year 2011, we purchased 55% of the materials for our manufacturing processes from seven suppliers. Substantially all of our purchases are on a purchase order basis, and we have not generally entered into long-term contracts with our contract manufacturers or suppliers. In the event that these purchase orders or relationships with suppliers are terminated, we cannot obtain sufficient quantities of raw materials at reasonable prices, the quality of the material deteriorates, we fail to satisfy our customers' requirements or we are not able to pass on higher materials or energy costs to our customers, our business, financial condition and results of operations could be adversely impacted.

Our manufacturing processes rely on many materials, including silicon and GaAs wafers, copper lead frames, precious metals, mold compound, ceramic packages and various chemicals and gases. From time to time, suppliers may extend lead times, limit supplies or increase prices due to commodity price increases, capacity constraints or other factors. Although we believe that our current supplies of materials are adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry.

We use third-party contractor manufacturers for most of our manufacturing activities, primarily for wafer fabrication and module assembly and test services. Our agreements with these manufacturers typically require us to forecast product needs, commit to purchase services consistent with these forecasts and may require other commitments in the early stages of the relationship. Our operations could be adversely affected in the event that these contractual relationships were disrupted or terminated, the cost of such services increased significantly, the quality of the services provided deteriorated, our forecasts proved to be materially incorrect or capacity were consumed by our competitors. We rely on third parties to provide corporate infrastructure services necessary for the operation of our business. Any failure of one or more of our vendors to provide these services could have a material adverse effect on our business. We rely on third-party vendors to provide critical corporate infrastructure services, including, among other things, certain services related to accounting, billing, human resources, information technology, or IT, network development and network monitoring. 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, 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 any such 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.

Our gross margin is dependent on a number of factors, including our product mix, customer mix, commodity prices and level of capacity utilization.

Our gross margin is highly dependent on product mix, with proprietary products and products sold into our industrial and automotive target market typically providing higher gross margin than other products. A shift in sales mix away from our higher margin products could adversely affect our future gross margin percentages. In addition, OEMs are becoming increasingly price conscious when they design semiconductors from third party suppliers into their products. This sensitivity, combined with large OEMs' purchasing power, can lead to intense price competition among competing suppliers, which may require us to decrease our prices in order to win a design with an OEM customer.

This can, in turn, adversely affect our gross margin. Our margin may also be affected by fluctuations in commodity prices, either directly in the price of the raw materials we buy, or as a result of prices increases passed on to us by our suppliers. Many commodities prices, including those of gold and fuel, have risen significantly in recent months. We do not hedge our exposure to commodity prices and continued increases in commodities prices may adversely affect our gross margin.

Our gross margin may also be affected by the timing and amount of non-refundable payments from customers for research and development projects during product development, which is high margin, but which fluctuates from quarter to quarter.

In addition, semiconductor manufacturing requires significant capital investment, leading to high fixed costs, including

Table of Contents

depreciation expense. Although we outsource a significant portion of our manufacturing activities, we do retain some semiconductor fabrication facilities. During fiscal year 2012, we intend to make substantial capital investment in our Fort Collins, Colorado facility to support anticipated growth in sales of our proprietary products and leverage our fixed costs. We may not realize the benefit we anticipate from this investment. If we are unable to utilize our owned fabrication facilities at a high level, the fixed costs associated with these facilities, such as depreciation expense, will not be fully absorbed, resulting in higher average unit costs and lower gross margins. In the past, we have experienced periods where our gross margins declined due to, among other things, reduced factory utilization resulting from reduced customer demand, reduced selling prices and a change in product mix towards lower margin devices. Increased competition and the existence of product alternatives, more complex engineering requirements, lower demand and other factors may lead to further price erosion, lower revenues and lower margins for us in the future. 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. In addition, as at January 29, 2012, approximately 66% of our employees are located outside of the United States. 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;
- changes in labor standards;
- limitations on our ability under local laws to protect our intellectual property;
- nationalization of businesses and expropriation of assets;
- changes in tax laws;
- currency fluctuations, which may result in our products becoming too expensive for foreign customers or
- foreign-sourced materials and services becoming more expensive for us; and
- difficulty in obtaining distribution and support.

A significant legal risk associated with conducting business internationally is compliance with various and differing anti-corruption and anti-bribery laws and regulations of the countries in which we do business, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar laws in China. In addition, the anti-corruption laws in various countries are constantly evolving and may, in some cases, conflict with each other. Our Code of Ethics and Business Conduct prohibit us and our employees from offering or giving anything of value to a government official for the purpose of obtaining or retaining business and from engaging in unethical business practices. However, there can be no assurance that all of our employees or agents will refrain from acting in violation of this and our related anti-corruption policies and procedures. Any such violation could have a material adverse effect on our business. A majority of our products are produced and sourced in Asia, including in China, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand. Any conflict or uncertainty in these countries, including due to political or civil unrest, public health or safety concerns or natural disasters, 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 certain 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.

In addition, our subsidiaries may require future equity-related financing, and any capital contributions to certain of our subsidiaries may require the approval of the relevant authorities in the jurisdiction in which the subsidiary is incorporated. The

34

---

Table of Contents

approvals are required from the investment commissions or similar agency of the particular jurisdiction and relate to any initial or additional equity investment by foreign entities in local corporations. Our failure to obtain the required approvals and our resulting inability to provide such equity-related financing or capital contributions could have an adverse effect on our business, financial condition and results of operations.

If we or our contract manufacturers suffer loss or significant damage to our factories, facilities or distribution system due to catastrophe, our operations could be seriously harmed.

Our factories, facilities and distribution system, and those of our contract manufacturers, are subject to risk of catastrophic loss due to fire, flood, earthquake or other natural or man-made disasters. The majority of our facilities and those of our contract manufacturers are located in the Pacific Rim region, a region with above average seismic and severe weather activity. In addition, our research and development personnel are concentrated in a few locations, primarily Malaysia, Singapore, South Korea, Fort Collins, Colorado and San Jose, California, with the expertise of the personnel at each such location tending to be focused on one or two specific areas. Any catastrophic natural disaster in those regions or catastrophic loss or significant damage to any of our facilities or those of our contract manufacturers in those regions would likely disrupt our operations, delay production, shipments and revenue. Such events could also result in significant expenses to repair or replace our affected facilities, and in some instances could significantly curtail our research and development efforts in a particular product area or target market. Any catastrophic loss at our Fort Collins, Colorado, San Jose, California, or Singapore facilities would materially and adversely affect our business.

If the tax incentive or tax holiday arrangements we have negotiated in Singapore and other jurisdictions change or cease to be in effect or applicable, or if our assumptions and interpretations regarding tax laws and incentive or holiday arrangements prove to be incorrect, the amount of corporate income taxes we have to pay could significantly increase.

We have structured our operations to maximize the benefit from various tax incentives and tax holidays extended to us in various jurisdictions to encourage investment or employment. For example, we have obtained several tax incentives from the Singapore Economic Development Board, an agency of the Government of Singapore, which provide that certain classes of income we earn in Singapore are subject to tax holidays or reduced rates of Singapore income tax. Each such tax incentive is separate and distinct from the others, and may be granted, withheld, extended, modified, truncated, complied with or terminated independently without any effect on the other incentives. In order to retain these tax benefits in Singapore, we must meet certain operating conditions specific to each incentive relating to, among other things, maintenance of a treasury function, a corporate headquarters function, specified intellectual property activities and specified manufacturing activities in Singapore. Some of these operating conditions are subject to phase-in periods through 2015. The Singapore tax incentives are presently scheduled to expire at various dates generally between 2014 and 2025. Absent such tax incentives, the corporate income tax rate in Singapore that would otherwise apply to us would be 17%. For the fiscal years ended October 30, 2011, October 31, 2010 and November 1, 2009, the effect of all these tax incentives, in the aggregate, was to reduce the overall provision for income taxes from what it otherwise would have been in such year by approximately \$82 million, \$63 million and \$17 million, respectively. The tax incentives that we have negotiated in other jurisdictions are also subject to our compliance with various operating and other conditions. If we cannot or elect not to comply with the operating conditions included in any particular tax incentive, we will lose the related tax benefits and could be required to refund material tax benefits previously realized by us with respect to that incentive and, depending on the incentive at issue, could likely be required to modify our operational structure and tax strategy. Any such modified structure or strategy may not be as beneficial to us from an income tax expense or operational perspective as the benefits provided under the present tax concession arrangements.

Our interpretations and conclusions regarding the tax incentives are not binding on any taxing authority, and if our assumptions about tax and other laws are incorrect or if these tax incentives are substantially modified or rescinded we could suffer material adverse tax and other financial consequences, which would increase our expenses, reduce our profitability and adversely affect our cash flows. In addition, taxable income in any jurisdiction is dependent upon acceptance of our operational practices and intercompany transfer pricing by local tax authorities as being on an arm's length basis. Due to inconsistencies in application of the arm's length standard among taxing authorities, as well as

lack of adequate treaty-based protection, transfer pricing challenges by tax authorities could, if successful, substantially increase our income tax expense. We are subject to, and are under, audit in various jurisdictions, and such jurisdictions may assess additional income tax against us. Although we believe our tax positions are reasonable, the final determination of tax audits could be materially different from our recorded income tax provisions and accruals. The ultimate results of an audit could have a material adverse effect on our operating results or cash flows in the period or periods for which that determination is made.

The enactment of legislation implementing changes in U.S. taxation of international business activities or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Tax bills are introduced from time to time to reform U.S. taxation of international business activities. Depending on the final form of legislation enacted, if any, these consequences may be significant for us due to the large scale of our international

Table of Contents

business activities. If any of these proposals are enacted into legislation, they could have material adverse consequences on the amount of tax we pay and thereby on our financial position and results of operations. We may not realize the full benefits of our research and development grants.

We have accepted research and development grants, the receipt and amount of which are subject to our satisfaction of certain terms and conditions. During the quarter ended January 29, 2012, we recorded \$2 million in credits to research and development expense. During fiscal year 2011, we recorded an aggregate of \$1 million in credits to research and development expense and \$1 million as a deferred credit for capital expenditure pursuant to these grants. If we cannot or elect not to satisfy the terms and conditions of any of these grants, expenses incurred in respect of the relevant research and development projects will not be approved for reimbursement, we may be required to return amounts previously paid to us under the grants and further grants may not be available to us in the future.

We may pursue acquisitions, dispositions, investments and joint ventures, which could affect our results of operations. We have made and expect to continue to make acquisitions of, and investments in, businesses that offer complementary products, services and technologies, augment our market coverage, or enhance our technological capabilities. We may also enter into strategic alliances or joint ventures to achieve these goals. We cannot assure you that we will be able to identify suitable acquisition, investment, alliance, or joint venture opportunities or that we will be able to consummate any such transactions or relationships on terms and conditions acceptable to us, or that such transactions or relationships will be successful.

These transactions or any other acquisitions or dispositions involve risks and uncertainties. For example, the integration of acquired businesses may not be successful and could result in disruption to other parts of our business. In addition, the integration may require that we incur significant restructuring charges, including as a result of streamlining, or divesting non-core portions of, acquired businesses. To integrate acquired businesses, we must implement our management information systems, operating systems and internal controls, and assimilate and manage the personnel of the acquired operations. The difficulties of these integrations may be further complicated by such factors as the size of the business or entity acquired, geographic distances, lack of experience operating in the geographic market or industry sector of the acquired business, delays and challenges associated with integrating the business with our existing businesses, diversion of management's attention from daily operations of the business, potential loss of key employees and customers of the acquired business, the potential for deficiencies in internal controls at the acquired or combined business, performance problems with the acquired business' technology, difficulties in entering markets in which we have no or limited direct prior experience, exposure to unanticipated liabilities of the acquired business, insufficient revenues to offset increased expenses associated with the acquisition, and our potential inability to achieve the growth prospects and synergies expected from any such acquisition. Even when an acquired business has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely fashion or that all pre-acquisition due diligence will have identified all material issues that might arise with respect to such acquired business.

Any acquisition may also cause us to assume liabilities and ongoing lawsuits, acquire goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential impairment charges, incur amortization expense related to certain intangible assets, increase our expenses and working capital requirements, and subject us to litigation, which would reduce our return on invested capital. In addition, if the businesses or products lines that we acquire have a different pricing or cost structure than we do, such acquisitions may adversely affect our profitability and reduce our overall margin. Failure to manage and successfully integrate the acquisitions we make or to improve margins of the acquired businesses and products could materially harm our business, operating results and margins.

Any future acquisitions may require additional debt or equity financing, which, in the case of debt financing, would increase our leverage and potentially affect our credit ratings, and in the case of equity financing, would be dilutive to our existing shareholders. Any downgrades in our credit ratings associated with an acquisition could adversely affect our ability to borrow by resulting in more restrictive borrowing terms. As a result of the foregoing, we also may not be able to complete acquisitions or other strategic transactions in the future to the same extent as in the past, or at all.

These and other factors could harm our ability to achieve anticipated levels of profitability at acquired operations or realize other anticipated benefits of an acquisition, and could adversely affect our business, financial condition and results of operations.



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 significant 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 expenses to comply with these regulations or to

Table of Contents

remedy violations of these regulations. 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.

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 commercially until the products or component substances are brought into compliance.

We are subject to environmental, health and safety laws, which could increase our costs, restrict our operations and require expenditures that could have a material adverse affect on our results of operations and financial condition. We are subject to a variety of international and U.S. laws and other legal requirements relating to the use, disposal, clean-up of and human exposure to, hazardous materials. Any failure by us to comply with environmental, health and safety requirements could result in the limitation or suspension of production or subject us to future liabilities in excess of our reserves. In addition, compliance with environmental, health and safety requirements could restrict our ability to expand our facilities or require us to acquire costly pollution control equipment, incur other significant expenses or modify our manufacturing processes. In the event of the discovery of new contamination, additional requirements with respect to existing contamination, or the imposition of other cleanup obligations for which we are responsible, we may be required to take remedial or other measures which could have a material adverse effect on our business, financial condition and results of operations.

We also face increasing complexity in our product design and procurement operations as we adjust to new requirements relating to the materials composition of our products, including the restrictions on lead and certain other substances in electronics that apply to specified electronics products sold in the European Union as of July 1, 2006 under the Restriction of Hazardous Substances in Electrical and Electronic Equipment Directive. Other countries, such as the United States, China and Japan, have enacted or may enact laws or regulations similar to the EU legislation. Other environmental regulations may require us to re-engineer our products to utilize components that are more environmentally compatible. Such re-engineering and component substitution may result in excess inventory or other additional costs and could have a material adverse effect on our results of operations.

In addition to the costs of complying with environmental, health and safety requirements, we may in the future incur costs defending against environmental litigation brought by government agencies and private parties. We may be defendants in lawsuits brought by parties in the future alleging environmental damage, personal injury or property damage. A significant judgment against us could harm our business, financial condition and results of operations. In the last few years, there has been increased media scrutiny and associated reports focusing on a potential link between working in semiconductor manufacturing clean room environments and certain illnesses, primarily different types of cancers. Regulatory agencies and industry associations have begun to study the issue to see if any actual correlation exists. Because we utilize clean rooms, we may become subject to liability claims. In addition, these reports may also affect our ability to recruit and retain employees.

We cannot predict:

- changes in environmental or health and safety laws or regulations;
- the manner in which environmental or health and safety laws or regulations will be enforced, administered or interpreted;
- our ability to enforce and collect under indemnity agreements and insurance policies relating to environmental liabilities; or
- the cost of compliance with future environmental or health and safety laws or regulations or the costs associated with any future environmental claims, including the cost of clean-up of currently unknown environmental conditions.

New regulations related to “conflict minerals” may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.  
The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, requires the SEC to

37

---

Table of Contents

establish new disclosure and reporting requirements for those companies who use certain minerals and metals mined in the Democratic Republic of Congo and adjoining countries in their products, known as conflict minerals, whether or not these products are manufactured by third parties. When these new requirements are implemented, they could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of semiconductor devices, including our products. In addition, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may be unable to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.

We have taken significant restructuring charges in the past and may need to take material restructuring charges in the future.

We have pursued a number of restructuring initiatives in the past, designed to reduce costs and increase revenue across our operations, in large part due to the global economic downturn and related decline in demand for our customers' products. These initiatives included significant workforce reductions in certain areas as we realigned our business, establishing certain operations closer in location to our global customers, evaluating functions more efficiently performed through partnerships or other outside relationships and steps to reduce our overhead costs. We may be required to take additional charges in the future as we continue to evaluate our operations and cost structures relative to general economic conditions, market demands, our cost competitiveness, our geographic footprint as it relates to our customers' production requirements and our research and development focus. The timing or amount of any future restructuring charges is uncertain. Additionally, there are other potential risks associated with our restructurings that could adversely affect us, such as delays encountered with the finalization and implementation of the restructuring activities, work stoppages, and the failure to achieve targeted cost savings. If we are required to take additional restructuring charges in the future, our operating results, financial condition, and cash flows may be adversely impacted.

We rely on third-party distributors and manufacturers' representatives, as well as our employee sales representatives, and the failure of these distributors or representatives to perform as expected could reduce our future sales. In addition to selling products through our employee sales representatives, we also rely on distributors and manufacturers' representatives to sell our products to our customers. This is particularly the case in markets where we do not have a significant physical presence and new markets that we are seeking to enter. We are unable to predict the extent to which our distributors and manufacturers' representatives will be successful in marketing and selling our products. Moreover, many of our distributors and manufacturers' representatives also market and sell competing products. Our relationships with our representatives and distributors may be terminated by either party at any time. In June 2011, we reduced the number of our global, full-line distributors, by changing one of them to a regional, full-line distributor. We continue to evaluate our sales and distribution strategies and may make further changes in the future. Our future performance will depend, in part, on our ability to attract additional distributors or manufacturers' representatives that will be able to market and support our products effectively, especially in markets where we have not previously distributed our products, and on our ability to effectively manage distribution efforts by our remaining global, full-line distributors. If we cannot retain our current distributors or manufacturers' representatives, recruit additional or replacement distributors or manufacturers' representatives, or effectively manage changes to our sales and distributions strategies, our sales and operating results will be harmed.

The average selling prices of products in our markets have historically decreased rapidly and will likely do so in the future, which could harm our revenues and gross profits.

The products we develop and sell are used for high volume applications. As a result, the prices of those products have historically decreased rapidly. Gross profits on our products may be negatively affected by, among other things, pricing pressures from our customers, and the proportion of sales of our wireless and other products into consumer application markets, which are highly competitive and cost sensitive. In the past, we have reduced the average selling prices of our products in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. In addition, some of our customer agreements provide for volume-based pricing and

product pricing roadmaps, which can also reduce the average selling prices of our products over time. Our gross profits and financial results will suffer if we are unable to offset any reductions in our average selling prices by increasing our sales volumes, reducing manufacturing costs, or developing new and higher value-added products on a timely basis.

We are required to assess our internal control over financial reporting on an annual basis and any adverse findings from such assessment could result in a loss of investor confidence in our financial reports, significant expenses to remediate any internal control deficiencies and ultimately have an adverse effect on our share price.

We are required to assess the effectiveness of our internal control over financial reporting annually, as required by

Table of Contents

Section 404 of the Sarbanes-Oxley Act. Even though, as at October 30, 2011, we concluded that our internal control over financial reporting was effective, we need to maintain our processes and systems and adapt them as our business grows and changes. This continuous process of maintaining and adapting our internal controls and complying with Section 404 is expensive, time-consuming and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404. Furthermore, as we grow our business or acquire other businesses, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, either in our existing business or in businesses that we may acquire, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses in our internal controls, the disclosure of that fact, even if quickly remedied, may cause investors to lose confidence in our financial statements and the trading price of our ordinary shares may decline.

Remediation of a material weakness could require us to incur significant expense and if we fail to remedy any material weakness, 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 ordinary shares may decline, and we may be subject to sanctions or investigation by regulatory authorities, including the SEC or The Nasdaq Global Select Market. We may also be required to restate our financial statements from prior periods.

A breach of our security systems may have a material adverse effect on our business.

Our security systems are designed to maintain the physical security of our facilities and protect our customers', suppliers' and employees' confidential information. Accidental or willful security breaches or other unauthorized access by third parties to our facilities or our information systems or the existence of computer viruses in our data or software could expose us to a risk of information loss and misappropriation of proprietary and confidential information. Any theft or misuse of such information could result in, among other things, unfavorable publicity, damage to our reputation, difficulty in marketing our products, allegations by our customers that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for liabilities and damages related to the theft or misuse of such information, any of which could have a material adverse effect on our business, profitability and financial condition. Since the techniques used to obtain unauthorized access or to sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

**Risks Relating to Investments in Singapore Companies**

It may be difficult to enforce a judgment of U.S. courts for civil liabilities under U.S. federal securities laws against us, our directors or officers in Singapore.

We are incorporated under the laws of the Republic of Singapore, and certain of our officers and directors are resident outside the United States. Moreover, a majority of our consolidated assets are located outside the United States. Although we are incorporated outside the United States, we have agreed to accept service of process in the United States through our agent designated for that purpose. Nevertheless, since a majority of the consolidated assets owned by us are located outside the United States, any judgment obtained in the United States against us may not be collectible within the United States.

There is no treaty between the United States and Singapore providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters and a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws, would, therefore, not be automatically enforceable in Singapore. There is doubt whether a Singapore court may impose civil liability on us or our directors and officers who reside in Singapore in a suit brought in the Singapore courts against us or such persons with respect to a violation solely of the federal securities laws of the United States, unless the facts surrounding such a violation would constitute or give rise to a cause of action under Singapore law.

Consequently, it may be difficult for investors to enforce against us, our directors or our officers in Singapore judgments obtained in the United States, which are predicated upon the civil liability provisions of the federal securities laws of the United States.

We are incorporated in Singapore and our shareholders may have more difficulty in protecting their interest than they would as shareholders of a corporation incorporated in the United States.

Our corporate affairs are governed by our memorandum and articles of association and by the laws governing corporations incorporated in Singapore. The rights of our shareholders and the responsibilities of the members of our board of directors under Singapore law are different from those applicable to a corporation incorporated in the United States. Therefore, our public shareholders may have more difficulty in protecting their interest in connection with actions taken by our management or members of our board of directors than they would as shareholders of a corporation incorporated in the United States.

## Table of Contents

For a limited period of time, our directors have general authority to allot and issue new ordinary shares on terms and conditions as may be determined by our board of directors in its sole discretion.

Under Singapore law, we may only allot and issue new ordinary shares with the prior approval of our shareholders in a general meeting. At our 2011 AGM, our shareholders provided our directors with the general authority to allot and issue any number of new ordinary shares until the earlier of (i) the conclusion of our 2012 AGM, currently scheduled to be held on April 4, 2012, (ii) the expiration of the period within which the next annual general meeting is required to be held (i.e., within 15 months from the conclusion of the last general meeting) or (iii) the subsequent revocation or modification of such general authority by our shareholders acting at a duly noticed and convened meeting. At our 2012 AGM we plan to ask our shareholders to provide us with similar general authority to allot and issue new ordinary shares until our 2013 AGM, or the date by which it is required by law to be held, unless earlier revoked by our shareholders. Subject to the general authority to allot and issue new ordinary shares provided by our shareholders, the provisions of the Singapore Companies Act and our memorandum and articles of association, our board of directors may allot and issue new ordinary shares on terms and conditions as they may think fit to impose. Any additional issuances of new ordinary shares by our directors may adversely impact the market price of our ordinary shares.

### Risks Relating to Owning Our Ordinary Shares

At times, our share price has been volatile and it may fluctuate substantially in the future, which could result in substantial losses for our investors.

The trading price of our ordinary shares has, at times, fluctuated significantly. The trading price of our ordinary shares could be subject to wide fluctuations in response to many risk factors listed in this “Risk Factors” section, and others, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition and operating results;
- overall conditions in the semiconductor market and general economic and market conditions;
- 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 or competitive products 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;
- 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 of, or expectation of additional financing efforts;
- sales of our ordinary shares by us or our shareholders;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and
- changes in our dividend policy.

Furthermore, the stock markets have recently experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies, including ours. 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 ordinary shares. You may not realize any return on your investment in us and may lose some or all of your investment. 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.





Table of Contents

Future sales of our ordinary shares in the public market could cause our share price to fall.

Sales of a substantial number of our ordinary shares in the public market, including by members of our management, or the perception that these sales might occur, could depress the market price of our ordinary shares and could impair our ability to raise capital through the sale of additional equity securities.

As of March 2, 2012, approximately 21.5 million outstanding ordinary shares are subject to the contractual transfer restrictions in our Second Amended and Restated Shareholder Agreement. The Company and the shareholders party to that agreement have in the past and may in future decide to waive these transfer restrictions.

As of March 2, 2012, holders of approximately 21.5 million ordinary shares are entitled to rights with respect to registration of such shares under the Securities Act of 1933, as amended, or the Securities Act, pursuant to a Registration Rights Agreement with us. These holders have exercised their registration rights several times since our since our initial public offering, or IPO, in August 2009 and if such holders, by exercising their registration rights or otherwise, continue to sell a large number of shares, they could adversely affect the market price for our ordinary shares. If we register the sale of additional shares to raise capital and are required to include shares held by these holders in such registration pursuant to the exercise of their registration rights, our ability to raise capital may be impaired.

In addition, shares issued pursuant to our equity incentive plans, including such shares issued to members of our management, may be freely sold in the public market upon vesting and issuance, subject to the restrictions provided under the terms of the plan and option agreement under which they were issued, applicable securities laws and our insider trading policy.

There can be no assurance that we will continue to declare cash dividends or repurchase shares.

Our board of directors adopted a dividend policy pursuant to which the Company will pay quarterly dividends on our ordinary shares and has also approved a program to repurchase up to 15 million of the company's ordinary shares, not to exceed \$500 million in the aggregate, which authorization will expire at our 2012 AGM, scheduled to occur on April 4, 2012. Under Singapore law, we may only repurchase our ordinary shares with the prior approval of our shareholders in a general meeting. At our 2011 AGM, our shareholders provided our directors with the general authority to repurchase up to 10% of our ordinary shares until the earlier of (i) the date of our 2012 AGM, currently scheduled to be held on April 4, 2012, (ii) the expiration of the period within which the next annual general meeting is required to be held (i.e., within 15 months from the conclusion of the last general meeting) or (iii) the subsequent revocation or modification of such general authority by our shareholders acting at a duly noticed and convened meeting. At our 2012 AGM we plan to ask our shareholders to provide us with similar general authority to repurchase up to 10% ordinary shares until our 2013 AGM or the date by which it is required by law to be held, unless earlier revoked by our shareholders, or the 2012 share repurchase mandate.

The declaration and payment of any future dividend is subject to the approval of our board of directors and our dividend policy could change at any time. Similarly, our share repurchase program may be suspended or terminated at any time prior to its expiration at the 2012 AGM. Even if shareholders approve the 2012 share repurchase mandate at the 2012 AGM, our board of directors may not approve a new share repurchase program or, if approved, it will also be subject to suspension or termination at any time prior to its expiration. There can be no assurance that we will declare cash dividends or repurchase shares in the future in any particular amounts, or at all. Furthermore, we may declare dividends as interim dividends, which are wholly provisional under Singapore law and may be revoked by our board of directors at any time prior to the payment thereof. The payment of cash dividends is restricted by applicable law and our corporate structure. Pursuant to Singapore law and our articles of association, no dividends may be paid except out of our profits. Also, because we are a holding company, our ability to pay cash dividends on our ordinary shares and to repurchase our shares may be limited by restrictions on our ability to obtain sufficient funds through dividends from subsidiaries, including restrictions under the terms of our credit agreement.

Future dividends and share repurchases, if any, their timing and amount, as well as the relative allocation of cash between dividends and share repurchases, may be affected by, among other factors: our views on potential future capital requirements for strategic transactions, including acquisitions; earnings levels; contractual restrictions; cash position and overall financial condition; and changes to our business model. In addition, the amount we spend and the number of shares we are able to repurchase under our share repurchase program may further be affected by a number

of other factors, including the share price and blackout periods in which we are restricted from repurchasing shares. A reduction in, or elimination of, our dividend payments and/or share repurchases could have a negative effect on our share price.

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, listing requirements of The Nasdaq Global Select Market and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, places significant demands on our systems, resources and management. 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

Table of Contents

operations. We may also 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, such as the Dodd-Frank Act, are creating uncertainty for public companies, further 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.

Being a public company also makes it 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 committees of our board of directors, and qualified executive officers.

Singapore corporate law may impede a takeover of our company by a third-party, which could adversely affect the value of our ordinary shares.

The Singapore Code on Take-overs and Mergers contains provisions that may delay, deter or prevent a future takeover or change in control of our company for so long as we remain a public company with more than 50 shareholders and net tangible assets of S\$5 million or more. Any person acquiring an interest, whether by a series of transactions over a period of time or not, either on their own or together with parties acting in concert with such person, in 30% or more of our voting shares, or, if such person holds, either on their own or together with parties acting in concert with such person, between 30% and 50% (both inclusive) of our voting shares, and such person (or parties acting in concert with such person) acquires additional voting shares representing more than 1% of our voting shares in any six-month period, must, except with the consent of the Securities Industry Council in Singapore, extend a mandatory takeover offer for the remaining voting shares in accordance with the provisions of the Singapore Code on Take-overs and Mergers. While the Singapore Code on Take-overs and Mergers seeks to ensure equality of treatment among shareholders, its provisions may discourage or prevent certain types of transactions involving an actual or threatened change of control of our company. These legal requirements may impede or delay a takeover of our company by a third-party, which could adversely affect the value of our ordinary shares.

Our actual operating results may differ significantly from our guidance.

From time to time, we release guidance regarding our future performance that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent that actual results could not fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance

is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this Quarterly Report on Form 10-Q could result in the actual operating results being different than the guidance, and such differences may be adverse and material.

Table of Contents

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered securities during the quarter ended January 29, 2012.

## Issuer Repurchase of Equity Securities

The following table presents details of our repurchases during the fiscal quarter ended January 29, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) (in millions)
October 31, 2011 - November 27, 2011	806,775	\$32.35	806,775	\$381
November 28, 2011 - December 25, 2011	1,141,474	\$29.10	1,141,474	\$348
December 26, 2011 - January 29, 2012	662,598	\$29.57	662,598	\$328
Total	2,610,847	\$30.23	2,610,847	

During the period from October 31, 2011 to January 29, 2012 all share repurchases were made in open market (1) transactions, pursuant to the publicly announced share repurchase program discussed above. All repurchases were made in accordance with Rule 10b-18 under the Exchange Act.

On June 8, 2011, our board of directors authorized the repurchase of up to 15 million of the Company's outstanding (2) ordinary shares, not to exceed \$500 million in the aggregate, in open market transactions prior to the date on which the 2012 AGM is held or is required by law to be held. Our 2012 AGM is currently scheduled to be held on April 4, 2012.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

None.

## Item 5. Other Information

## Dividend

On March 7, 2012, the Board declared an interim cash dividend on the Company's ordinary shares of \$0.13 per share, payable on March 30, 2012 to shareholders of record at the close of business (5:00 p.m.), Eastern Time, on March 19, 2012.

## Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference Herein		Filed Herewith
		Form	Filing Date	
3.1	Memorandum and Articles of Association	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428).	August 14, 2009	



Edgar Filing: Avago Technologies LTD - Form 10-Q

Table of Contents

Exhibit Number	Description	Incorporated by Reference Herein		Filed Herewith
		Form	Filing Date	
4.1	Second Amended and Restated Shareholder Agreement, dated August 11, 2009, among Avago Technologies Limited, Silver Lake Partners II Cayman, L.P., Silver Lake Technology Investors II Cayman, L.P., Integral Capital Partners VII, L.P., KKR Millennium Fund (Overseas), Limited Partnership, KKR European Fund, Limited Partnership, KKR European Fund II, Limited Partnership, KKR Partners (International), Limited Partnership, Capstone Equity Investors LLC, Avago Investment Partners, Limited Partnership, Bali Investments S.à.r.l., Seletar Investments Pte Ltd, Geysler Investment Pte. Ltd. and certain other Persons	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428).	August 14, 2009	
4.2	Amendment to the Second Amended and Restated Shareholder Agreement and Waiver Under the Registration Rights Agreement, dated December 20, 2011, among Avago Technologies Limited, Silver Lake Partners II Cayman, L.P., Silver Lake Technology Investors II Cayman, L.P., Integral Capital Partners VII, L.P., KKR Millennium Fund (Overseas), Limited Partnership, KKR European Fund, Limited Partnership, KKR European Fund II, Limited Partnership, KKR Partners (International), Limited Partnership, Capstone Equity Investors LLC, Avago Investment Partners, Limited Partnership, Seletar Investments Pte Ltd, Geysler Investment Pte. Ltd. and certain other Persons			X
4.3	Second Amendment to the Second Amended and Restated Shareholder Agreement, dated January 20, 2012, among Avago Technologies Limited, Silver Lake Partners II Cayman, L.P., Silver Lake Technology Investors II			X



Cayman, L.P., KKR Millennium Fund (Overseas), Limited Partnership, KKR European Fund, Limited Partnership, KKR European Fund II, Limited Partnership, KKR Partners (International), Limited Partnership, Capstone Equity Investors LLC, Avago Investment Partners, Limited Partnership, and certain other Persons

31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X

Table of Contents

Exhibit Number	Description	Incorporated by Reference Herein		Filed Herewith
		Form	Filing Date	
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
101.INS†	XBRL Instance Document			X
101.SCH†	XBRL Schema Document			X
101.CAL†	XBRL Calculation Linkbase Document			X
101.DEF†	XBRL Definition Linkbase Document			X
101.LAB†	XBRL Labels Linkbase Document			X
101.PRE†	XBRL Presentation Linkbase Document			X

---

† Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets at January 29, 2012 and October 30, 2011, (ii) Unaudited Condensed Consolidated Statements of Income for the quarters ended January 29, 2012 and January 30, 2011, (iii) Unaudited Condensed Consolidated Statements of Cash Flows for the quarters ended January 29, 2012 and January 30, 2011 and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.

XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

Table of Contents

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.

AVAGO TECHNOLOGIES LIMITED

By: /s/ Douglas R. Bettinger  
Douglas R. Bettinger  
Senior Vice President and Chief Financial Officer

Date: March 8, 2012