

# BROADCOM CORP

## FORM 10-Q (Quarterly Report)

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from to

Commission file number: 000-23993



**Broadcom Corporation**

*(Exact Name of Registrant as Specified in Its Charter)*

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

**33-0480482**  
*(I.R.S. Employer  
Identification No.)*

**5300 California Avenue**  
**Irvine, California 92617-3038**  
*(Address of Principal Executive Offices) (Zip Code)*

**(949) 926-5000**  
*(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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (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 June 30, 2009 the registrant had 435.9 million shares of Class A common stock, \$0.0001 par value, and 60.0 million shares of Class B common stock, \$0.0001 par value, outstanding.



**BROADCOM CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009**  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**BROADCOM CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
	(In thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,506,518	\$ 1,190,645
Short-term marketable securities	700,585	707,477
Accounts receivable, net	444,046	372,311
Inventory	279,298	366,106
Prepaid expenses and other current assets	108,078	114,674
Total current assets	<u>3,038,525</u>	<u>2,751,213</u>
Property and equipment, net	224,238	234,691
Long-term marketable securities	92,699	—
Goodwill	1,277,104	1,279,243
Purchased intangible assets, net	34,174	61,958
Other assets	81,581	66,160
Total assets	<u>\$ 4,748,321</u>	<u>\$ 4,393,265</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 389,630	\$ 310,487
Wages and related benefits	129,547	157,758
Deferred revenue	115,387	12,338
Accrued liabilities	277,979	236,520
Total current liabilities	<u>912,543</u>	<u>717,103</u>
Long-term deferred revenue	1,615	3,898
Other long-term liabilities	60,851	65,197
Commitments and contingencies		
Shareholders' equity:		
Common stock	50	49
Additional paid-in capital	11,178,614	10,930,315
Accumulated deficit	(7,402,869)	(7,324,330)
Accumulated other comprehensive income (loss)	(2,483)	1,033
Total shareholders' equity	<u>3,773,312</u>	<u>3,607,067</u>
Total liabilities and shareholders' equity	<u>\$ 4,748,321</u>	<u>\$ 4,393,265</u>

See accompanying notes.

**BROADCOM CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands, except per share data)			
Net revenue:				
Product revenue	\$ 966,317	\$1,161,965	\$1,794,547	\$2,154,968
Licensing revenue	73,627	38,966	98,833	78,173
Total net revenue	<u>1,039,944</u>	<u>1,200,931</u>	<u>1,893,380</u>	<u>2,233,141</u>
Operating costs and expenses:				
Cost of product revenue	518,674	554,596	964,951	1,035,759
Research and development	374,770	380,035	747,494	735,723
Selling, general and administrative	127,410	142,017	252,458	253,963
Amortization of purchased intangible assets	4,139	184	8,298	367
In-process research and development	—	—	—	10,900
Impairment of long-lived assets	11,261	1,900	11,261	1,900
Restructuring costs (reversals)	447	(1,000)	7,558	(1,000)
Settlement costs (gains)	(58,406)	—	(57,256)	15,810
Charitable contribution	50,000	—	50,000	—
Total operating costs and expenses	<u>1,028,295</u>	<u>1,077,732</u>	<u>1,984,764</u>	<u>2,053,422</u>
Income (loss) from operations	11,649	123,199	(91,384)	179,719
Interest income, net	3,986	12,428	8,384	32,532
Other income (expense), net	1,019	(191)	2,665	733
Income (loss) before income taxes	16,654	135,436	(80,335)	212,984
Provision (benefit) for income taxes	3,253	647	(1,796)	3,881
Net income (loss)	<u>\$ 13,401</u>	<u>\$ 134,789</u>	<u>\$ (78,539)</u>	<u>\$ 209,103</u>
Net income (loss) per share (basic)	<u>\$ 0.03</u>	<u>\$ 0.26</u>	<u>\$ (0.16)</u>	<u>\$ 0.40</u>
Net income (loss) per share (diluted)	<u>\$ 0.03</u>	<u>\$ 0.25</u>	<u>\$ (0.16)</u>	<u>\$ 0.39</u>
Weighted average shares (basic)	<u>495,110</u>	<u>512,875</u>	<u>492,652</u>	<u>521,606</u>
Weighted average shares (diluted)	<u>507,993</u>	<u>529,977</u>	<u>492,652</u>	<u>534,902</u>

The following table presents details of total stock-based compensation expense *included* in each functional line item in the unaudited condensed consolidated statements of operations above:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Cost of product revenue	\$ 6,128	\$ 6,237	\$ 12,005	\$ 11,702
Research and development	86,607	90,003	175,869	168,709
Selling, general and administrative	29,893	31,268	58,527	60,333

See accompanying notes.

**BROADCOM CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six Months Ended June 30,	
	2009	2008
	(In thousands)	
<b>Operating activities</b>		
Net income (loss)	\$ (78,539)	\$ 209,103
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	36,041	36,419
Stock-based compensation expense:		
Stock options and other awards	85,557	115,207
Restricted stock units	160,844	125,537
Acquisition-related items:		
Amortization of purchased intangible assets	16,523	8,236
In-process research and development	—	10,900
Impairment of long-lived assets	11,261	1,900
Loss on strategic investments, net	—	1,760
Non-cash restructuring charges	2,663	—
Gain on sale of marketable securities	(1,046)	—
Changes in operating assets and liabilities:		
Accounts receivable	(71,735)	(110,815)
Inventory	86,808	(25,033)
Prepaid expenses and other assets	(7,786)	18,758
Accounts payable	79,761	123,829
Deferred revenue	100,766	(10,580)
Other accrued and long-term liabilities	(2,617)	(17,993)
Net cash provided by operating activities	<u>418,501</u>	<u>487,228</u>
<b>Investing activities</b>		
Net purchases of property and equipment	(26,294)	(49,067)
Net cash received from (paid for) acquired companies	2,139	(29,738)
Purchases of strategic investments	—	(355)
Purchases of marketable securities	(511,050)	(338,521)
Proceeds from sales and maturities of marketable securities	421,845	220,598
Net cash used in investing activities	<u>(113,360)</u>	<u>(197,083)</u>
<b>Financing activities</b>		
Repurchases of Class A common stock	(38,434)	(835,863)
Proceeds from issuance of common stock	83,694	90,614
Minimum tax withholding paid on behalf of employees for restricted stock units	(34,528)	(25,753)
Net cash provided by (used in) financing activities	<u>10,732</u>	<u>(771,002)</u>
Increase (decrease) in cash and cash equivalents	315,873	(480,857)
Cash and cash equivalents at beginning of period	<u>1,190,645</u>	<u>2,186,572</u>
Cash and cash equivalents at end of period	<u>\$1,506,518</u>	<u>\$1,705,715</u>

See accompanying notes.

**BROADCOM CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2009**

**1. Summary of Significant Accounting Policies**

**Our Company**

Broadcom Corporation (including our subsidiaries, referred to collectively in these unaudited condensed consolidated financial statements as “Broadcom”, “we”, “our” and “us”) is a major technology innovator and global leader in semiconductors for wired and wireless communications. Our products enable the delivery of voice, video, data and multimedia to and throughout the home, the office and the mobile environment. Broadcom provides one of the industry’s broadest portfolios of state-of-the-art system-on-a-chip and software solutions to manufacturers of computing and networking equipment, digital entertainment and broadband access products, and mobile devices. Our diverse product portfolio includes solutions for digital cable, satellite and Internet Protocol (IP) set-top boxes and media servers; high definition television (HDTV); high definition DVD players and personal video recording (PVR) devices; cable and DSL modems and residential gateways; high-speed transmission and switching for local, metropolitan, wide area and storage networking; server solutions; broadband network and security processors; wireless and personal area networking; cellular communications; global positioning system (GPS) applications; mobile multimedia and applications processors; mobile power management; and Voice over Internet Protocol (VoIP) gateway and telephony systems.

**Basis of Presentation**

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial information and with the instructions to Securities and Exchange Commission, or SEC, Form 10-Q and Article 10 of SEC Regulation S-X. They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2008, included in our Annual Report on Form 10-K filed with the SEC February 4, 2009.

The interim condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly our consolidated financial position at June 30, 2009 and December 31, 2008, and our consolidated results of operations and cash flows for the three and six months ended June 30, 2009 and 2008. The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for future quarters or the full year.

Certain prior period amounts in the unaudited condensed consolidated statements of operations have been reclassified to conform with the current period presentation of product and licensing revenue.

**Foreign Currency Translation**

The functional currency for most of our international operations is the U.S. dollar. The functional currency for a small number of our foreign subsidiaries is the local currency. Assets and liabilities denominated in foreign currencies are translated using the exchange rates on the balance sheet dates. Revenues and expenses are translated using the average exchange rates prevailing during the year. Any translation adjustments resulting from this process are shown separately as a component of accumulated other comprehensive income (loss) within shareholders’ equity in the unaudited condensed consolidated balance sheets. Foreign currency transaction gains and losses are reported in other income (expense), net in the unaudited condensed consolidated statements of operations.

**Use of Estimates**

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of net revenue and expenses in the reporting periods. We regularly evaluate estimates and assumptions related to revenue recognition, rebates, allowances for doubtful accounts, sales returns and allowances, warranty reserves, inventory reserves, stock-based compensation expense, goodwill and purchased intangible asset valuations, strategic investments, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, self-insurance, restructuring costs,

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litigation and other loss contingencies. These estimates and assumptions are based 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 recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results we experience may differ materially and adversely from our estimates. To the extent there are material differences between the estimates and actual results, our future results of operations will be affected.

### Revenue Recognition

Our product revenue consists principally of sales of semiconductor devices and, to a lesser extent, software licenses and royalties, development, support and maintenance agreements, data services and cancellation fees. Our licensing revenue is generated from the licensing of intellectual property. The majority of our sales occur through the efforts of our direct sales force. The remaining balance of sales occurs through distributors.

The following tables present details of our net revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Product revenue <sup>(1)</sup>	92.9%	96.8%	94.8%	96.5%
Licensing revenue	7.1	3.2	5.2	3.5
Total net revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

- (1) Includes software licenses and royalties, development, support and maintenance agreements, data services and cancellation fees totaling less than 0.7% of total net revenue for all periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales made through direct sales force	80.3%	85.1%	81.5%	85.9%
Sales made through distributors	19.7	14.9	18.5	14.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

In accordance with SEC Staff Accounting Bulletin, or SAB, No. 104, *Revenue Recognition*, or SAB 104, we recognize product revenue when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the price to the customer is fixed or determinable, and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment. However, we do not recognize revenue when any significant obligations remain. We record reductions to revenue for estimated product returns and pricing adjustments, such as competitive pricing programs and rebates, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns, analysis of credit memo data, specific criteria included in rebate agreements, and other factors known at the time. We account for rebates in accordance with Financial Accounting Standards Board, or FASB, Emerging Issues Task Force, or EITF, Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, and, accordingly, at the time of sale we accrue 100% of the potential rebate as a reduction of revenue and do not apply a breakage factor. The amount of these reductions is based upon the terms included in our various rebate agreements. We reverse the accrual for unclaimed rebates as specific rebate programs contractually end or when we believe unclaimed rebates are no longer subject to payment and will not be paid. See Note 2 for a summary of our rebate activity.

A portion of our sales is made through distributors under agreements allowing for pricing credits and/or rights of return. These pricing credits and/or right of return provisions prevent us from being able to reasonably estimate the final price of the inventory to be sold and the amount of inventory that could be returned pursuant to these agreements. As a result, the criterion listed in (iii) in the paragraph above has not been met at the time we deliver products to our distributors. Accordingly, product revenue from sales made through these distributors is not recognized until the distributors ship the product to their customers. We also maintain inventory, or hubbing, arrangements with certain of our customers. Pursuant to these arrangements we deliver products to a customer or a designated third party warehouse based upon the customers' projected needs, but do not recognize product revenue

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unless and until the customer reports that it has removed our product from the warehouse to be incorporated into its end products.

In arrangements that include a combination of semiconductor products and software, where software *is* considered more-than-incidental and essential to the functionality of the product being sold, we follow the guidance in EITF Issue No. 03-5, *Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software*, or EITF 03-5. Under EITF 03-5, we are required to account for the entire arrangement as a sale of software and software-related items, and follow the revenue recognition criteria in accordance with the American Institute of Certified Public Accountants Statement of Position, or SOP, No. 97-2, *Software Revenue Recognition*, and related interpretations, or SOP 97-2.

In arrangements that include a combination of semiconductor products, software and/or services, where software *is not* considered more-than-incidental to the product being sold, we follow the guidance in EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, to allocate the arrangement consideration.

In the arrangements described above, both the semiconductor products and software are delivered concurrently and post-contract customer support is not provided. Therefore, under both SOP 97-2 and SAB 104, we recognize revenue upon shipment of the semiconductor product, assuming all other basic revenue recognition criteria are met, as both the semiconductor products and software are considered delivered elements and no undelivered elements exist. In limited instances where there are undelivered elements, we allocate revenue based on the residual fair value of the individual elements. If there is no established fair value for an undelivered element, the entire arrangement is accounted for as a single unit of accounting, resulting in a deferral of revenue and costs for the delivered element until the undelivered element has been fulfilled. In cases where the undelivered element is a data or support service, the revenue and costs applicable to both the delivered and undelivered elements are recorded ratably over the respective service period or estimated product life. If the undelivered element is essential to the functionality of the delivered element, no revenue or costs are recognized until the undelivered element is delivered.

Revenue from software licenses is recognized in accordance with the provisions of SOP 97-2. Royalty revenue is recognized based upon reports received from licensees during the period, unless collectibility is not reasonably assured, in which case revenue is recognized when payment is received from the licensee. Revenue under development agreements is recognized when applicable contractual milestones have been met, including deliverables, and in any case, does not exceed the amount that would be recognized using the percentage-of-completion method in accordance with SOP No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. The costs associated with development agreements are included in cost of product revenue. Revenue from cancellation fees is recognized when cash is received from the customer.

Revenue from the licensing of intellectual property is recognized based upon either the performance period of the license or upon receipt of licensee reports as applicable in our various intellectual property arrangements. See Note 2 for additional details of the licensing of intellectual property.

We record deferred revenue when advance payments are received from customers before performance obligations have been completed and/or services have been performed. Deferred revenue does not include amounts from products delivered to distributors that the distributors have not yet sold through to their end customers.

### Cost of Product Revenue

Cost of product revenue comprises the cost of our semiconductor devices, which consists of the cost of purchasing finished silicon wafers manufactured by independent foundries, costs associated with our purchase of assembly, test and quality assurance services and packaging materials for semiconductor products, as well as royalties paid to vendors for use of their technology. Also included in cost of product revenue is the amortization of purchased technology, and manufacturing overhead, including costs of personnel and equipment associated with manufacturing support, product warranty costs, provisions for excess and obsolete inventories, and stock-based compensation expense for personnel engaged in manufacturing support.

### Concentration of Credit Risk

We sell the majority of our products throughout North America, Asia and Europe. Sales to our recurring customers are generally made on open account while sales to occasional customers are typically made on a prepaid or letter of credit basis. We perform periodic credit evaluations of our recurring customers and generally do not require collateral. An allowance for doubtful accounts is maintained for potential credit losses, which losses historically have not been significant.

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We invest our cash in deposits and money market funds with major financial institutions, in U.S. government obligations, and in debt securities of corporations with strong credit ratings and in a variety of industries. It is our policy to invest in instruments that have a final maturity of no longer than three years, with a portfolio weighted average maturity of no longer than 18 months.

### Fair Value of Financial Instruments

We adopted Statement of Financial Accounting Standards, or SFAS, No. 157, *Fair Value Measurements*, or SFAS 157, and the related effective interpretations for both financial and non-financial assets and liabilities. This did not have a material impact on our unaudited condensed consolidated financial statements. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements.

Our financial instruments consist principally of cash and cash equivalents, short- and long-term marketable securities, accounts receivable and accounts payable. Marketable securities consist of available-for-sale securities that are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of shareholders' equity, net of tax. Pursuant to SFAS 157, the fair value of our cash equivalents and marketable securities is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. We believe that the recorded values of all of our other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

### Cash and Cash Equivalents

We consider all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less at the time of purchase to be cash equivalents.

### Marketable Securities

Broadcom defines marketable securities as income yielding securities that can be readily converted into cash. Examples of marketable securities include U.S. Treasury and agency obligations, commercial paper, corporate notes and bonds, time deposits, foreign notes and certificates of deposit.

We account for our investments in debt and equity instruments as available for sale under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and FASB Staff Positions, or FSP, SFAS No. 115-1 and SFAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, as amended by FSP 115-2 and 124-2*, or FSP 115-1 and 124-1. Management determines the appropriate classification of such securities at the time of purchase and re-evaluates such classification as of each balance sheet date. Cash equivalents and marketable securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of shareholders' equity, net of tax. We follow the guidance provided by FSP 115-1 and 124-1 to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net in the unaudited condensed consolidated statements of operations.

### Inventory

Inventory consists of work in process and finished goods and is stated at the lower of cost (first-in, first-out) or market. We establish inventory reserves for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions. Shipping and handling costs are classified as a component of cost of product revenue in the unaudited condensed consolidated statements of operations.

### Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization are calculated using the straight-line method over the assets' estimated remaining useful lives, ranging from one to ten years. Depreciation and amortization of leasehold improvements are computed using the shorter of the remaining useful lives or lease terms.

### Goodwill and Long-Lived Assets

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, or SFAS 142, we test goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis in the fourth quarter or more frequently if we believe indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, we perform the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

We account for long-lived assets, including other purchased intangible assets, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or SFAS 144, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment, such as reductions in demand or significant economic slowdowns in the semiconductor industry, are present. Reviews are performed to determine whether the carrying value of an asset is impaired, based on comparisons to undiscounted expected future cash flows. If this comparison indicates that there is impairment, the impaired asset is written down to fair value, which is typically calculated using: (i) quoted market prices or (ii) discounted expected future cash flows utilizing a discount rate consistent with the guidance provided in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*. Impairment is based on the excess of the carrying amount over the fair value of those assets.

### Warranty

Our products typically carry a one to three year warranty. We establish reserves for estimated product warranty costs at the time revenue is recognized based upon our historical warranty experience, and additionally for any known product warranty issues. If actual costs differ from our initial estimates, we record the difference in the period it is identified. Actual claims are charged against the warranty reserve. See Note 2 for a summary of our warranty activity.

### Guarantees and Indemnifications

In some agreements to which we are a party, we have agreed to indemnify the other party for certain matters such as product liability. We include intellectual property indemnification provisions in our standard terms and conditions of sale for our products and have also included such provisions in certain agreements with third parties. We have and will continue to evaluate and provide reasonable assistance for these other parties. This may include certain levels of financial support to minimize the impact of the litigation in which they are involved. To date, there have been no known events or circumstances that have resulted in any material costs related to these indemnification provisions and no liabilities have been recorded in the accompanying unaudited condensed consolidated financial statements. However, the maximum potential amount of the future payments we could be required to make under these indemnification obligations could be significant.

We also have obligations to indemnify certain of our present and former directors, officers and employees to the maximum extent not prohibited by law. Under these obligations, Broadcom is required to indemnify (subject to certain exceptions) each such director, officer and employee against expenses, including attorneys' fees, judgments, fines and settlements, paid by such individual in connection with our currently outstanding securities litigation and related government investigations described in Note 9. The potential amount of the future payments we could be required to make under these indemnification obligations could be significant. We maintain directors' and officers' insurance policies that may limit our exposure and enable us to recover a portion of the amounts paid with respect to such obligations. However, certain of our insurance carriers have reserved their rights under their respective policies, and in the third quarter of 2008 one of our insurance carriers notified us that coverage was not available and that it intended to suspend payment to us. As a result, we ceased receiving reimbursements under these policies for our expenses related to the matters described above. However, in January 2009 we entered into an agreement with that insurance carrier and certain of our other insurance carriers pursuant to which, without prejudicing our rights or

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the rights of such insurers, we have received payments from these insurers under these insurance policies. We recognize reimbursements from our directors' and officers' insurance carriers on a cash basis, pursuant to which we record a reduction of selling, general and administrative expense only when cash is received from our insurance carriers. In the three and six months ended June 30, 2009, we recovered legal expenses of \$5.0 million and \$16.6 million, respectively, under these insurance policies. From inception of the securities litigation and related government investigations through June 30, 2009, we have recovered legal expenses of \$43.3 million under these insurance policies. These amounts have been recorded as a reduction of selling, general and administrative expense. In certain limited circumstances, all or portions of the amounts recovered from our insurance carriers may be required to be repaid. We regularly evaluate the need to record a liability for potential future repayments in accordance with SFAS No. 5, *Accounting for Contingencies*, or SFAS 5. As of June 30, 2009 we have not recorded a liability in connection with these potential insurance repayment provisions. In connection with our currently outstanding securities litigation and related government investigations described in Note 9, as of June 30, 2009, we had advanced \$57.9 million to certain former officers for attorney and expert fees for which we did not receive reimbursement from our insurance carriers, which amount has been expensed. If our coverage under these policies is reduced or eliminated, our potential financial exposure in the pending securities litigation and related government investigations would be increased.

### Income Taxes

We utilize the asset and liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes*, or SFAS 109. Under the asset and liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

We utilize FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109*, or FIN 48, for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in our unaudited condensed consolidated financial statements. FIN 48 requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized. We recognize potential accrued interest and penalties related to unrecognized tax benefits within the unaudited condensed consolidated statements of operations as income tax expense.

### Stock-Based Compensation

Broadcom has in effect stock incentive plans under which incentive stock options have been granted to employees and restricted stock units and non-qualified stock options have been granted to employees and non-employee members of the Board of Directors. We also have an employee stock purchase plan for all eligible employees. SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R requires companies to estimate the fair value of share-based awards on the date of grant. The value of the award is principally recognized as expense ratably over the requisite service periods. The fair value of our restricted stock units is based on the closing market price of our Class A common stock on the date of grant. We have estimated the fair value of stock options and stock purchase rights as of the date of grant or assumption using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and that are freely transferable. The Black-Scholes model considers, among other factors, the expected life of the award and the expected volatility of our stock price. We evaluate the assumptions used to value stock options and stock purchase rights under SFAS 123R on a quarterly basis. Although the Black-Scholes model meets the requirements of SFAS 123R and SAB 107, *Share-Based Payment*, the fair values generated by the model may not be indicative of the actual fair values of our equity awards, as it does not consider other factors important to those awards to employees, such as continued employment, periodic vesting requirements and limited transferability.

### Litigation and Settlement Costs

We are involved in disputes, litigation and other legal actions. In accordance with SFAS 5 we record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. Legal costs are expensed as incurred.

### Net Income (Loss) Per Share

Net income (loss) per share (basic) is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Net income per share (diluted) is calculated by adjusting outstanding shares, assuming any dilutive effects of options and restricted stock units calculated using the treasury stock method. Under the treasury stock method, an increase in the fair market value of our Class A common stock results in a greater dilutive effect from outstanding options, stock purchase rights and restricted stock units. Additionally, the exercise of employee stock options and stock purchase rights and the vesting of restricted stock units results in a further dilutive effect on net income per share.

### Business Enterprise Segments

We operate in one reportable operating segment, wired and wireless broadband communications. SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or SFAS 131, 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. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. Our Chief Executive Officer, who is considered to be our chief operating decision maker, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance.

Although we have four operating segments, under the aggregation criteria set forth in SFAS 131 we operate in only one reportable operating segment, wired and wireless broadband communications.

### Self-Insurance

We are self-insured for certain healthcare benefits provided to our U.S. employees. The liability for the self-insured benefits is limited by the purchase of stop-loss insurance. The stop-loss coverage provides payment for aggregate claims exceeding \$0.3 million per covered person for any given year.

Accruals for losses are made based on our claim experience and actuarial estimates based on historical data. Actual losses may differ from accrued amounts. Should actual losses exceed the amounts expected and the recorded liabilities be insufficient, an additional expense will be recorded.

### Recent Accounting Pronouncements

In December 2007 the FASB issued SFAS No. 141R, *Business Combinations*, or SFAS 141R. SFAS 141R establishes principles and requirements for the acquirer of a business to recognize and measure in its financial statements the identifiable assets (including in-process research and development) acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Prior to the adoption of SFAS 141R, in-process research and development was immediately expensed. In addition, under SFAS 141R all acquisition costs are expensed as incurred. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, business combinations we engaged in were recorded and disclosed according to SFAS No. 141, *Business Combinations*, until January 1, 2009. We expect SFAS 141R will have an impact on our consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after the effective date of January 1, 2009.

In April 2009 the FASB issued FSP No. 141R-1 *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, or FSP 141R-1. FSP 141R-1 amends the provisions in SFAS 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. The FSP eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS 141R and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the

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acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We expect FSP 141R-1 will have an impact on our consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquired contingencies.

In December 2007 the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51*, or SFAS 160. SFAS 160 addresses the accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 160 did not have a material impact on our unaudited condensed consolidated financial statements.

In December 2007 the FASB ratified EITF Issue No. 07-1, *Accounting for Collaborative Arrangements*, or EITF 07-1. EITF 07-1 focuses on defining a collaborative arrangement as well as the accounting for transactions between participants in a collaborative arrangement and between the participants in the arrangement and third parties. The EITF concluded that both types of transactions should be reported in each participant's respective income statement. EITF 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and should be applied using a modified retrospective method to all prior periods presented for all collaborative arrangements existing as of the effective date. The adoption of EITF 07-1 did not have a material impact on our current or prior unaudited condensed consolidated financial statements.

In April 2008 the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*, or FSP 142-3, which amends the guidance for estimating the useful lives of recognized intangible assets and requires additional disclosures related to renewing or extending the terms of recognized intangible assets under SFAS 142. FSP 142-3 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The adoption of FSP 142-3 did not have a material impact on our unaudited condensed consolidated financial statements.

In May 2008 the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, or SFAS 162. SFAS 162 identifies the sources of accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the SEC approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We currently adhere to the hierarchy of GAAP as presented in SFAS 162, and adoption is not expected to have a material impact on our unaudited condensed consolidated financial statements.

In November 2008 the FASB ratified EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets*, or EITF 08-7. EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use, but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting which should be amortized to expense over the period the intangible asset will directly or indirectly affect the entity's cash flows. Defensive intangible assets must be recognized at fair value in accordance with SFAS 141R and SFAS 157. EITF 08-7 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We expect EITF 08-7 will have an impact on our consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and value of the intangible assets purchased after the effective date of January 1, 2009.

In April 2009 the FASB issued three related Staff Positions: (i) FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly*, or FSP 157-4, (ii) FSP 115-2 and FSP No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, or FSP 115-2 and FSP 124-2, and (iii) FSP 107-1 and APB No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, or FSP 107 and APB 28-1, which are effective for interim and annual periods ending after June 15, 2009. FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If we were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to *normal* market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP 115-2 and FSP 124-2 modify the requirements for

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recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current *intent and ability* indicator in determining whether a debt security is other-than-temporarily impaired. FSP 107 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. The adoption of these FSPs did not have a material impact on our unaudited condensed consolidated financial statements.

In May 2009 the FASB issued and we adopted SFAS No. 165, *Subsequent Events*, or SFAS 165. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether the date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective in the first interim period ending after June 15, 2009.

In June 2009 the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, or SFAS 167, that will change how we determine when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. Under SFAS No. 167, determining whether a company is required to consolidate an entity will be based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 is effective for financial statements after January 1, 2010.

In June 2009 the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting*, or SFAS 168. SFAS 168 represents the last numbered standard to be issued by FASB under the old (pre-Codification) numbering system, and amends the GAAP hierarchy established under SFAS 162. On July 1, 2009 the FASB launched FASB's new Codification entitled *The FASB Accounting Standards Codification*. The Codification will supersede all existing non-SEC accounting and reporting standards. SFAS 168 is effective in the first interim and annual periods ending after September 15, 2009. This pronouncement will have no effect on our unaudited condensed consolidated financial statements upon adoption other than current references to GAAP which will be replaced with references to the applicable codification paragraphs.

## 2. Supplemental Financial Information

### Inventory

The following table presents details of our inventory:

	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
	(In thousands)	
Work in process	\$130,318	\$ 166,811
Finished goods	<u>148,980</u>	<u>199,295</u>
	<u>\$279,298</u>	<u>\$ 366,106</u>

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### Property and Equipment

The following table presents details of our property and equipment:

	Useful Life (In years)	June 30, 2009	December 31, 2008
		(In thousands)	
Leasehold improvements	1 to 10	\$ 159,295	\$ 154,594
Office furniture and equipment	3 to 7	26,287	25,059
Machinery and equipment	3 to 5	205,790	193,993
Computer software and equipment	2 to 4	118,031	113,501
Construction in progress	N/A	4,749	3,893
		<u>514,152</u>	<u>491,040</u>
Less accumulated depreciation and amortization		(289,914)	(256,349)
		<u>\$ 224,238</u>	<u>\$ 234,691</u>

In the six months ended June 30, 2009 and 2008, we disposed of property and equipment with a net book value of \$0.3 million and \$2.1 million, respectively.

### Goodwill

The following table summarizes the activity related to the carrying value of our goodwill during the six months ended June 30, 2009:

	Six Months Ended June 30, 2009
	(In thousands)
Beginning balance	\$ 1,279,243
Purchase price adjustment — DTV Business of AMD, Inc.	(2,139)
Ending balance	<u>\$ 1,277,104</u>

### Purchased Intangible Assets

The following table presents details of our purchased intangible assets:

	June 30, 2009			December 31, 2008		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(In thousands)					
Completed technology	\$220,669	\$ (198,300)	\$22,369	\$220,669	\$ (190,074)	\$30,595
Customer relationships (1)	80,366	(69,895)	10,471	80,366	(50,558)	29,808
Customer backlog	3,436	(3,436)	—	3,436	(3,436)	—
Other	9,214	(7,880)	1,334	9,214	(7,659)	1,555
	<u>\$313,685</u>	<u>\$ (279,511)</u>	<u>\$34,174</u>	<u>\$313,685</u>	<u>\$ (251,727)</u>	<u>\$61,958</u>

- (1) Included in accumulated amortization in 2009 was an impairment to customer relationships of \$11.3 million related to the acquisition of the DTV Business of AMD in accordance with SFAS 144. The primary factor contributing to this impairment charge was the reduction in the revenue outlook from an acquired customer.

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The following table presents details of the amortization of purchased intangible assets *included* in the cost of product revenue and other operating expense categories:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Cost of product revenue	\$ 4,112	\$ 3,934	\$ 8,225	\$ 7,869
Other operating expenses	4,139	184	8,298	367
	<u>\$ 8,251</u>	<u>\$ 4,118</u>	<u>\$ 16,523</u>	<u>\$ 8,236</u>

The following table presents details of estimated future straight-line amortization of existing purchased intangible assets. If we acquire additional purchased intangible assets in the future, our cost of product revenue or operating expenses will be increased by the amortization of those assets.

	Purchased Intangible Assets Amortization by Year					
	2009	2010	2011	2012	Thereafter	Total
	(In thousands)					
Cost of product revenue	\$ 7,750	\$ 13,239	\$ 1,380	\$ —	\$ —	\$ 22,369
Other operating expenses	4,052	6,920	500	333	—	11,805
	<u>\$ 11,802</u>	<u>\$ 20,159</u>	<u>\$ 1,880</u>	<u>\$ 333</u>	<u>\$ —</u>	<u>\$ 34,174</u>

### Accrued Liabilities

The following table presents details of our accrued liabilities:

	June 30, 2009	December 31, 2008
	(In thousands)	
Accrued rebates	\$119,940	\$ 125,058
Accrued charitable contribution	50,000	—
Accrued legal costs	41,141	26,973
Accrued payments on repurchases of Class A common stock	12,535	—
Warranty reserve	11,902	11,473
Accrued taxes	6,807	15,924
Restructuring liabilities	2,598	3,342
Accrued licensing payments	—	25,467
Other	33,056	28,283
	<u>\$277,979</u>	<u>\$ 236,520</u>

### Other Long-Term Liabilities

The following table presents details of our other long-term liabilities:

	June 30, 2009	December 31, 2008
	(In thousands)	
Deferred rent	\$30,500	\$ 32,594
Accrued taxes	24,482	26,190
Restructuring liabilities	—	837
Other long-term liabilities	5,869	5,576
	<u>\$60,851</u>	<u>\$ 65,197</u>

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### Accrued Rebate Activity

The following table summarizes the activity related to accrued rebates during the six months ended June 30, 2009 and 2008:

	Six Months Ended June 30,	
	2009	2008
	(In thousands)	
Beginning balance	\$ 125,058	\$ 132,603
Charged as a reduction of revenue	120,557	110,371
Reversal of unclaimed rebates	(7,565)	(26,515)
Payments	(118,110)	(104,230)
Ending balance	<u>\$ 119,940</u>	<u>\$ 112,229</u>

We recorded rebates to certain customers of \$70.0 million and \$55.3 million and reversed accrued rebates of \$4.7 million and \$11.2 million in the three months ended June 30, 2009 and 2008, respectively.

### Warranty Reserve Activity

The following table summarizes activity related to the warranty reserve during the six months ended June 30, 2009 and 2008:

	Six Months Ended June 30,	
	2009	2008
	(In thousands)	
Beginning balance	\$ 11,473	\$ 23,287
Charged to costs and expenses	3,959	2,282
Payments	(3,530)	(3,174)
Ending balance	<u>\$ 11,902</u>	<u>\$ 22,395</u>

We recorded charges to costs and expenses of \$2.9 million and \$1.0 million in the three months ended June 30, 2009 and 2008, respectively.

### Restructuring Activity

In light of the deterioration in worldwide economic conditions, in January 2009 we began implementing a restructuring plan. The plan included a reduction in our worldwide headcount of approximately 200 people, which represented approximately 3% of our global workforce.

We recorded \$0.4 million and \$7.6 million in net restructuring costs in the three and six months ended June 30, 2009, respectively, related to the plan, primarily for severance and other charges associated with our reduction in workforce across multiple locations and functions and, to a lesser extent, the closure of one of our facilities. Of the total restructuring costs, \$2.7 million related to stock-based compensation expense incurred in connection with the modification of certain share-based awards.

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The following table summarizes activity related to our current and long-term restructuring liabilities during the six months ended June 30, 2009:

	<b>Six Months Ended June 30, 2009</b>
	<b>(In thousands)</b>
Beginning balance	4,179
Charged to expense	8,308
Reversal of restructuring costs <sup>(1)</sup>	(750)
Payments <sup>(2)</sup>	(9,139)
Ending balance <sup>(3)</sup>	<u>\$ 2,598</u>

- (1) We recorded a reversal of restructuring liabilities of \$0.8 million, reflecting revised assumptions on a facility included in a prior restructuring plan.
- (2) Payments related to severance, fringe benefits and non-cancelable lease costs.
- (3) The remaining excess facility cost will be paid over the remaining lease term through 2010.

### Computation of Net Income (Loss) Per Share

The following table presents the computation of net income (loss) per share:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except per share data)</b>			
Numerator: Net income (loss)	<u>\$ 13,401</u>	<u>\$134,789</u>	<u>\$ (78,539)</u>	<u>\$209,103</u>
Denominator: Weighted average shares outstanding	495,204	512,968	492,746	521,699
Less: Unvested common shares outstanding	(94)	(93)	(94)	(93)
Denominator for net income (loss) per share (basic)	495,110	512,875	492,652	521,606
Effect of dilutive securities:				
Unvested common shares outstanding	46	—	—	—
Stock awards	<u>12,837</u>	<u>17,102</u>	<u>—</u>	<u>13,296</u>
Denominator for net income (loss) per share (diluted)	<u>507,993</u>	<u>529,977</u>	<u>492,652</u>	<u>534,902</u>
Net income (loss) per share (basic)	<u>\$ 0.03</u>	<u>\$ 0.26</u>	<u>\$ (0.16)</u>	<u>\$ 0.40</u>
Net income (loss) per share (diluted)	<u>\$ 0.03</u>	<u>\$ 0.25</u>	<u>\$ (0.16)</u>	<u>\$ 0.39</u>

Net income (loss) per share (diluted) does not include the effect of anti-dilutive common share equivalents resulting from outstanding equity awards. There were 80.9 million and 76.4 million anti-dilutive common share equivalents in the three months ended June 30, 2009 and 2008, respectively. There were 128.9 million and 100.7 million anti-dilutive common share equivalents in the six months ended June 30, 2009 and 2008, respectively.

### Licensing of Intellectual Property

#### *Settlement and Patent License and Non-Assert Agreement*

On April 26, 2009 we entered into a Settlement and Patent License and Non-Assert Agreement, or the Qualcomm Agreement, with QUALCOMM Incorporated, or Qualcomm. As part of the Qualcomm Agreement, each party granted certain rights under its patent portfolio to the other party including, in certain circumstances, under future patents issued within one to four years after April 26, 2009. The term of the Qualcomm Agreement commenced April 26, 2009 and will continue until the expiration of the last to expire of the covered patents. The Qualcomm Agreement also resulted in the parties dismissing with prejudice all outstanding litigation between them, and in Broadcom withdrawing its complaints with foreign competition authorities.

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In addition, certain patents were assigned by Broadcom to Qualcomm with Broadcom retaining a royalty-free license under these patents. Also, Qualcomm will make payments to Broadcom totaling \$891.2 million, of which \$200.0 million was paid in the three months ended June 30, 2009. The remaining balance will be paid in sixteen equal and successive quarterly payments of \$43.2 million each, starting in the three months ending September 30, 2009 and concluding in the three months ending June 30, 2013.

We determined the estimated fair values of the individual components of the Qualcomm Agreement and used the relative fair value method to allocate the payment amounts to the individual components of the gain on settlement and revenue from the licensing of our intellectual property. In the three months ended June 30, 2009 we recorded a gain on settlement of outstanding litigation related to intellectual property of \$65.3 million, which represents the estimated relative fair value of the settlement for Qualcomm's past infringement. The fair value of this amount was primarily established based on awards determined by the United States District Court for the Central District of California.

The estimated relative fair value of the licensing revenue as well as the assignment of patents of \$825.9 million will be recorded as a single unit of accounting and recognized over the Qualcomm Agreement's performance period of four years. In the three months ended June 30, 2009, we recorded licensing revenue of \$36.7 million and expect to record licensing revenue in equal quarterly amounts of \$51.7 million for the quarters ending September 30, 2009 through March 31, 2012, \$47.7 million in the three months ending June 30, 2012 and \$43.2 million in each of the following four quarters ending June 30, 2013. At June 30, 2009 we recorded deferred revenue of \$97.9 million related to the initial payment.

Separately, we recorded licensing revenue of \$30.5 million in the three months ended June 30, 2009 related to additional payments made by Qualcomm during 2008 for shipments from May 2007 through December 31, 2008, related to a permanent injunction on certain products. These amounts were previously deferred due to continuing litigation appeals, which have been resolved through the Qualcomm Agreement.

### *Patent License Agreement*

In July 2007 we entered into a patent license agreement with a wireless network operator. Under the agreement, royalty payments were made to us at a rate of \$6.00 per unit for each applicable unit sold by the operator on or after the date of the agreement, subject to certain conditions, including without limitation a maximum payment of \$40.0 million per calendar quarter and a lifetime maximum of \$200.0 million. We recorded licensing revenue of \$19.0 million in the six months ended June 30, 2009, and \$35.6 million and \$71.2 million in the three and six months ended June 30, 2008, respectively, under this agreement and recorded a cumulative total of \$200.0 million in licensing revenue from the commencement of the agreement through March 31, 2009.

### **Charitable Contribution**

In April 2009 we established the Broadcom Foundation, or the Foundation, to support mathematics and science programs, as well as a broad range of community services. In June 2009 we pledged to make an unrestricted grant of \$50.0 million to the Foundation upon receiving a determination letter from the Internal Revenue Service of exemption from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, as the receipt of the determination letter is deemed probable, we recorded an operating expense for the contribution of \$50.0 million in the three and six months ended June 30, 2009.

### **Supplemental Cash Flow Information**

During the three months ended June 30, 2009, we repurchased \$12.5 million of our Class A common stock in one or more transactions that had not been settled by June 30, 2009. We also paid \$5.4 million related to capital equipment purchases that were accrued at December 31, 2008. In addition, billings of \$4.8 million for capital equipment were accrued but not yet paid as of June 30, 2009. These amounts have been excluded from the unaudited condensed consolidated statements of cash flows.

### 3. Business Combinations

#### License Agreement

In connection with our acquisition of Sunext Design, Inc., we were required to pay up to an additional \$38.0 million in future license fees and royalties related to optical disk reader and writer technology, assuming Sunext Technology successfully delivers the technologies as defined in a separate license agreement. To date we have paid \$31.4 million related to certain delivered technologies and prepaid royalties, as defined in the license agreement. At June 30, 2009 we may be required to pay up to an additional \$2.6 million as defined in the agreement.

#### Contingent Consideration

In connection with our acquisition of Global Locate, Inc. in 2007, additional cash consideration of up to \$80.0 million could have been paid to the former holders of Global Locate capital stock and other rights upon satisfaction of certain future performance goals. We previously paid \$20.2 million in 2007 and 2008 to the former holders of Global Locate capital stock and other rights upon satisfaction of certain performance goals. The time remaining for completion of the other performance goals has expired and no future payments are expected.

#### Supplemental Pro Forma Data (Unaudited)

The unaudited pro forma statement of operations data below gives effect to the Sunext Design and DTV Business of AMD, Inc. acquisitions that were completed in 2008 as if they had occurred at the beginning of 2008. The following data includes the amortization of purchased intangible assets and stock-based compensation expense, but excludes the charge for acquired in-process research and development. In addition, it includes an impairment of goodwill and purchased intangibles of \$473.2 million recorded by AMD prior to our acquisition of the DTV Business. This pro forma data is presented for informational purposes only and does not purport to be indicative of the results of future operations or of the results that would have occurred had the acquisitions taken place at the beginning of 2008.

	<u>Six Months Ended</u> <u>June 30, 2008</u> (In thousands, except per share data)
Pro forma net revenue	\$ 2,275,041
Pro forma net loss	\$ (350,533)
Pro forma net loss per share (basic and diluted)	\$ (0.67)

### 4. Cash, Cash Equivalents and Marketable Securities

At June 30, 2009 we had \$2.300 billion in cash, cash equivalents and marketable securities. We maintain an investment portfolio of various security holdings, types and maturities. Pursuant to SFAS 157, the fair value of all of our cash equivalents and marketable securities is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. We place our cash investments in instruments that meet credit quality standards, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. All of our marketable securities are rated AAA, Aaa, A+, A-1 or P-1 by the major credit rating agencies.

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A summary of our cash, cash equivalents and short- and long-term marketable securities by major security type follows:

	<u>Cash and Cash Equivalents</u>	<u>Short-Term Marketable Securities</u> (In thousands)	<u>Long-Term Marketable Securities</u>	<u>Total</u>
<b>June 30, 2009</b>				
Cash	\$ 298,227	\$ —	\$ —	\$ 298,227
Time deposits	389,980	—	—	389,980
U.S. Treasury and agency money market funds	814,858	—	—	814,858
U.S. Treasury and agency obligations	—	700,585	92,699	793,284
Institutional money market funds	3,453	—	—	3,453
	<u>\$ 1,506,518</u>	<u>\$ 700,585</u>	<u>\$ 92,699</u>	<u>\$2,299,802</u>
<b>December 31, 2008</b>				
Cash	\$ 88,366	\$ —	\$ —	\$ 88,366
Time deposits	273,654	—	—	273,654
U.S. Treasury and agency money market funds	828,586	—	—	828,586
U.S. Treasury and agency obligations	—	703,722	—	703,722
Commercial paper and corporate bonds	—	3,755	—	3,755
Institutional money market funds	39	—	—	39
	<u>\$ 1,190,645</u>	<u>\$ 707,477</u>	<u>\$ —</u>	<u>\$1,898,122</u>

The following table shows the gross unrealized gains and losses and fair values for those investments as of June 30, 2009 and December 31, 2008 aggregated by major security type:

	<u>Cost</u>	<u>Gross Unrealized Gains</u> (In thousands)	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>June 30, 2009</b>				
U.S. Treasury and agency obligations	\$792,594	\$ 820	\$ (130)	\$793,284
Commercial paper and corporate bonds	—	—	—	—
	<u>\$792,594</u>	<u>\$ 820</u>	<u>\$ (130)</u>	<u>\$793,284</u>
<b>December 31, 2008</b>				
U.S. Treasury and agency obligations	\$698,910	\$ 4,814	\$ (2)	\$703,722
Commercial paper and corporate bonds	3,354	401	—	3,755
	<u>\$702,264</u>	<u>\$ 5,215</u>	<u>\$ (2)</u>	<u>\$707,477</u>

All of our long-term marketable securities had maturities of approximately two years at June 30, 2009.

We review our portfolio of investments to identify and evaluate investments that have an indication of possible other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. We maintain an investment portfolio of various holdings, types and maturities. We do not use derivative financial instruments.

## 5. Income Taxes

We recorded a tax provision of \$3.3 million and a tax benefit of \$1.8 million for the three and six months ended June 30, 2009, respectively, and tax provisions of \$0.6 million and \$3.9 million for the three and six months ended

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June 30, 2008, respectively. Our effective tax rates were 19.5% and 2.2% for the three and six months ended June 30, 2009, respectively, and 0.5% and 1.8% for the three and six months ended June 30, 2008, respectively. The difference between our effective tax rates and the 35% federal statutory rate resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate for the three and six months ended June 30, 2009 and June 30, 2008, domestic losses recorded without income tax benefit for the three and six months ended June 30, 2009, and tax benefits resulting primarily from the expiration of the statutes of limitations for the assessment of taxes in various foreign jurisdictions of \$5.5 million and \$6.5 million for the three and six months ended June 30, 2009, respectively, and \$4.4 million for the three and six months ended June 30, 2008. We recorded a tax benefit of \$3.9 million in the six months ended June 30, 2009 reflecting the utilization of a portion of our credits for increasing research activities (research and development tax credits) pursuant to a provision contained in the *American Recovery and Reinvestment Tax Act of 2009*, which was enacted in February 2009. Additionally, for the three and six months ended June 30, 2009, we recorded a tax provision of \$3.2 million associated with the exposure resulting from a recent decision by the U. S. Court of Appeals for the Ninth Circuit in the case involving Xilinx, Inc. as discussed below.

On May 27, 2009, the U.S. Court of Appeals for the Ninth Circuit in the case between Xilinx, Inc. and the Commissioner of Internal Revenue, overturned a 2005 U.S. Tax Court ruling regarding treatment of certain compensation expenses under a Company's research and development cost-sharing arrangements with affiliates. The Court of Appeals held that related parties to such an arrangement must share stock-based compensation expenses, notwithstanding the fact that unrelated parties in such an arrangement would not share such costs. The case is subject to further appeal. The potential impact to Broadcom, should the IRS prevail, of including such stock-based compensation expenses in our research and development cost-sharing arrangements would be additional income for federal and state purposes from January 1, 2001 forward, and may result in additional related federal and state income and franchise taxes, and material adjustments to our federal and state net operating loss carryforwards, our federal and state capitalized research and development costs and our deferred tax positions. Specifically, in the three and six months ended June 30, 2009, we recorded a \$3.2 million tax provision for additional federal and state income and franchise taxes. We also reduced our federal and state net operating loss carryforwards by approximately \$600.0 million and \$380.0 million, respectively, and reduced our federal and state capitalized research and development costs by approximately \$10.0 million and \$15.0 million, respectively. Additionally, in the three and six months ended June 30, 2009, we reduced our deferred tax asset relating to stock-based compensation expenses by approximately \$60.0 million, and increased our deferred tax asset for certain tax credits by approximately \$10.0 million, with each of these amounts offset by a corresponding adjustment to valuation allowance for deferred tax asset resulting in no net change to deferred tax assets.

As a result of SFAS 123R, since January 1, 2006, our deferred tax assets exclude excess tax benefits from employee stock-based compensation that are a component of our research and development credits, capitalized research and development, and net operating loss carryovers. If and when these tax benefits are realized, a credit is recorded to equity. The federal and state net operating losses and the capitalized research and development costs we reduced as a result of the decision in the Xilinx case represent such excess tax benefits from employee stock-based compensation and therefore do not result in an adjustment to our deferred tax assets.

We utilize the asset and liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes*, or SFAS 109. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. SFAS 109 states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of our recent cumulative losses in the U.S. and certain foreign jurisdictions, and the full utilization of our loss carryback opportunities, we have concluded that a full valuation allowance should be recorded in such jurisdictions. In certain other foreign jurisdictions where we do not have cumulative losses, we had net deferred tax assets of \$7.6 million and \$7.5 million at June 30, 2009 and December 31, 2008, respectively, in accordance with SFAS 109.

We file federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2004 through 2008 tax years generally remain subject to examination by federal and most state tax authorities. In foreign jurisdictions, the 2001 through 2008 tax years generally remain subject to examination by tax authorities.

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Our income tax returns for the 2004, 2005 and 2006 tax years are currently under examination by the Internal Revenue Service and certain state jurisdictions. In addition, our employment tax returns for the 2003, 2004, 2005 and 2006 tax years are under examination by the Internal Revenue Service. We currently do not expect that the results of these examinations will have a material effect on our financial condition or results of operations.

We operate under tax holidays in Singapore, which are effective through March 31, 2014. The tax holidays are conditional upon our continued compliance in meeting certain employment and investment thresholds.

## 6. Shareholders' Equity

### Share Repurchase Program

From time to time our Board of Directors has authorized various programs to repurchase shares of our Class A common stock depending on market conditions and other factors.

In July 2008 the Board of Directors authorized our current program to repurchase shares of Broadcom's Class A common stock having an aggregate value of up to \$1.0 billion. Repurchases under the program may be made at any time during the period that commenced July 31, 2008 and continuing through and including July 31, 2011. In the three and six months ended June 30, 2009 we repurchased a total of 2.0 million shares of our Class A common stock at a weighted average price of \$25.08, of which \$12.5 million of our Class A common stock had not settled. As of June 30, 2009, \$524.9 million remained authorized for repurchase under this program.

Repurchases under our share repurchase programs were and will be made in open market or privately negotiated transactions in compliance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

### Comprehensive Income (Loss)

The components of comprehensive income (loss), net of taxes, are as follows:

	Six Months Ended June 30,	
	2009	2008
	(In thousands)	
Net income (loss)	\$(78,539)	\$209,103
Other comprehensive income (loss):		
Unrealized loss on marketable securities	(4,523)	(23)
Translation adjustments	1,007	(4,719)
Total comprehensive income (loss)	<u>\$(82,055)</u>	<u>\$204,361</u>

7. Employee Benefit Plans

Combined Incentive Plan Activity

Activity under all stock option incentive plans in 2009 is set forth below:

	<u>Options Outstanding</u>			
	<u>Number of Shares</u> (In thousands)	<u>Exercise Price Range per Share</u>	<u>Weighted Average Exercise Price per Share</u>	<u>Weighted Average Grant-Date Fair Value per Share</u>
Balance at December 31, 2008	122,270	\$ .01 - \$81.50	\$ 25.42	\$ 15.66
Options granted	2,669	17.83 - 23.17	23.14	10.92
Options cancelled	(2,635)	.01 - 48.63	30.00	16.14
Options exercised	(2,557)	.01 - 26.31	16.90	12.65
Balance at June 30, 2009	<u>119,747</u>	<u>\$ .01 - \$81.50</u>	<u>\$ 25.45</u>	<u>\$ 15.60</u>

Restricted stock unit activity in 2009 is set forth below:

	<u>Restricted Stock Units Outstanding</u>	
	<u>Number of Shares</u> (In thousands)	<u>Weighted Average Grant-Date Fair Value per Share</u>
Balance at December 31, 2008	27,622	\$ 27.61
Restricted stock units granted	11,936	23.42
Restricted stock units cancelled	(772)	26.35
Restricted stock units vested	(5,193)	29.34
Balance at June 30, 2009	<u>33,593</u>	<u>\$ 25.88</u>

The per share fair values of stock options and employee stock purchase rights granted in the six months ended June 30, 2009 in connection with stock incentive plans have been estimated with the following weighted average assumptions:

	<u>Employee Stock Options</u>	<u>Employee Stock Purchase Rights</u>
Expected life (in years)	5.00	1.00
Volatility	0.53	0.61
Risk-free interest rate	1.83%	0.55%
Dividend yield	0.00%	0.00%
Weighted average fair value	\$10.92	\$8.29

**Unearned Stock-Based Compensation**

The following table presents details of unearned stock-based compensation currently estimated to be expensed in the remainder of 2009 through 2013 related to unvested share-based payment awards:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
	(In thousands)					
Unearned stock-based compensation	\$254,919	\$387,174	\$255,311	\$123,342	\$24,896	\$1,045,642

If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards or assume unvested equity awards in connection with acquisitions.

**8. Settlement Costs (Gains)**

We recorded settlement gains of \$65.3 million related to the Qualcomm Agreement in the three months ended June 30, 2009. We also recorded \$6.9 million in settlement costs in the three months ended June 30, 2009 for an estimated settlement associated with certain employment tax items. In addition, in the six months ended June 30, 2009 we recorded settlement costs of \$1.2 million related to a patent infringement claim.

In April 2008 we entered into a settlement with the SEC relating to the previously-disclosed SEC investigation of Broadcom’s historical stock option granting practices. Without admitting or denying the SEC’s allegations, we agreed to pay a civil penalty of \$12.0 million, which we recorded as a settlement cost in 2008. The settlement was approved by the United States District Court for the Central District of California in late April 2008. In addition, we settled a patent infringement claim for \$3.8 million in 2008. Both of the 2008 settlements were recorded in the six months ended June 30, 2008.

For further discussion of settlement gains, income tax and litigation matters, see Notes 2, 5 and 9, respectively.

**9. Litigation**

*Intellectual Property Proceedings.* In April 2009 we entered into a Settlement and Patent License and Non-Assert Agreement, or the Qualcomm Agreement, with QUALCOMM Incorporated that resulted in the parties dismissing with prejudice all outstanding litigation between them, and Broadcom withdrawing its complaints with foreign competition authorities. For further discussion of this Agreement, see Note 2.

In December 2006 SiRF Technology, Inc., or SiRF, filed a complaint in the United States District Court for the Central District of California against Global Locate, Inc., a privately-held company that became a wholly-owned subsidiary of Broadcom in July 2007, alleging that certain Global Locate products infringe four SiRF patents relating generally to GPS technology. In January 2007 Global Locate filed an answer denying the allegations in SiRF’s complaint and asserting counterclaims. The counterclaims seek a declaratory judgment that the four SiRF patents are invalid and not infringed, assert that SiRF has infringed four Global Locate patents relating generally to GPS technology, and assert unfair competition and antitrust violations related to the filing of sham litigation. In May 2007 the court granted Global Locate’s motion to stay the case until the U.S. International Trade Commission, or ITC, actions between Global Locate and SiRF, discussed below, become final.

In February 2007 SiRF filed a complaint in the ITC alleging that Global Locate engaged in unfair trade practices by importing integrated circuits and other products that infringe, both directly and indirectly, four SiRF patents relating generally to GPS technology. The complaint seeks an exclusion order to bar importation of those Global Locate products into the United States and a cease and desist order to bar further sales of infringing Global Locate products that have already been imported. In March 2007 the ITC instituted an investigation of Global Locate based upon the allegations made in the SiRF complaint. SiRF withdrew two patents from the investigation, and an ITC administrative law judge conducted a hearing on SiRF’s remaining two patents in suit in March 2008. In June 2008 the ITC administrative law judge issued an initial determination finding SiRF’s two patents not infringed and one patent invalid. In August 2008 the ITC denied SiRF’s petition to review the administrative law judge’s initial

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determination finding no violation, thereby adopting the administrative law judge's initial determination as the final determination of the ITC and terminating the investigation. In October 2008 SiRF filed a notice of appeal with the United States Court of Appeal for the Federal Circuit. In March 2009, SiRF filed a request to withdraw its appeal which was subsequently granted by the United States Court of Appeal for the Federal Circuit.

In April 2007 Global Locate filed a complaint in the ITC against SiRF and four of its customers, e-TEN Corporation, Pharos Science & Applications, Inc., MiTAC International Corporation and Mio Technology Limited, referred to collectively as the SiRF Defendants, asserting that the SiRF Defendants engaged in unfair trade practices by importing GPS devices, including integrated circuits and embedded software, incorporated in products such as personal navigation devices and GPS-enabled cellular telephones that infringe, both directly and indirectly, six Global Locate patents relating generally to GPS technology. The complaint seeks an exclusion order to bar importation of the SiRF Defendants' products into the United States and a cease and desist order to bar further sales of infringing products that have already been imported. In May 2007 the ITC instituted an investigation of the SiRF Defendants based upon the allegations made in the Global Locate complaint. A hearing was held in April and May 2008. In August 2008 the administrative law judge issued an initial determination finding that SiRF and the other SiRF Defendants infringed each of Global Locate's six patents, and that each of the six patents was not invalid and issued a recommended determination on remedy and bonding. In October 2008 the ITC determined, in part, not to review the administrative law judge's initial determination finding violation of three of Global Locate's patents. The ITC also decided to review the administrative law judge's initial determination that three other Global Locate patents were infringed by SiRF.

In January 2009 the Commission issued a Final Determination and upheld the ITC administrative law judge's August 2008 initial determination finding that SiRF and the other SiRF respondents infringe six Global Locate patents and that each of the six patents was not invalid. The Commission also issued an exclusion order banning the importation into the United States of infringing SiRF chips and the SiRF Defendants' products containing infringing SiRF chips and a cease and desist order prohibiting SiRF and the other SiRF Defendants from engaging in certain activities related to the infringing chips. In March 2009, the SiRF Defendants filed a notice of appeal with the United States Court of Appeal for the Federal Circuit.

In May 2008 Broadcom filed a complaint in the United States District Court for the Central District of California against SiRF, alleging that certain SiRF GPS and multimedia products infringe four Broadcom patents relating generally to graphics and communications technology. The District Court complaint seeks preliminary and permanent injunctions against SiRF and the recovery of monetary damages, including treble damages for willful infringement, and attorneys' fees. In June 2008 SiRF answered the complaint and asserted counterclaims seeking a declaratory judgment that Broadcom's patents are invalid and not infringed. In September 2008 the court denied SiRF's motion to stay the case. Discovery is ongoing. Trial has been set for November 2010.

In October 2007 Wi-LAN Inc. filed complaints against us and multiple other defendants in the United States District Court for the Eastern District of Texas alleging that certain Broadcom products infringe three Wi-LAN patents relating generally to wireless LAN and DSL technology. The complaint seeks a permanent injunction against us as well as the recovery of monetary damages and attorneys' fees. We filed an answer in January 2008 denying the allegations in Wi-LAN's complaint and asserting counterclaims seeking a declaratory judgment that the three Wi-LAN patents are invalid, unenforceable and not infringed. In February 2009 Wi-LAN filed a supplemental complaint alleging that certain Broadcom products infringe a fourth Wi-LAN patent relating generally to Bluetooth technology. The complaint seeks a permanent injunction against us as well as the recovery of monetary damages and attorneys' fees. We filed an answer in February 2009 denying the allegations in Wi-LAN's complaint and asserting counterclaims seeking a declaratory judgment that the fourth Wi-LAN patent is invalid, unenforceable and not infringed. Discovery is ongoing. Trial has been set for January 2011.

In December 2008, we filed a complaint in the United States District Court for the Northern District of California against Wi-LAN seeking declaratory judgment that Broadcom's products do not infringe the fourth Wi-LAN patent referred to in the previous paragraph and that the patent is invalid and unenforceable. Wi-LAN has not yet answered the complaint. No trial date has been set.

On July 22, 2009, British Telecom sued Broadcom in United States District Court for the District of New Jersey alleging infringement of a single patent purportedly relating to V.42bis data compression. The patent in suit expires in October 2009. Broadcom has not yet answered the complaint and a trial date has not been set.

*Securities Litigation and Other Related Matters.* In April 2009 we filed a complaint in Delaware Chancery Court against Emulex Corporation, or Emulex, and Emulex officers and directors (Fred B. Cox, Michael P. Downey, Bruce C. Edwards, Paul F. Folino, Robert H. Goon, Don M. Lyle, James M. McCluney, and Dean A. Yoost) alleging that a poison pill and certain bylaw amendments adopted by Emulex are contrary to law and/or breach the directors' fiduciary duty to Emulex, which we dismissed in June 2009.

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In May 2009, Emulex filed a complaint in the Central District of California against Broadcom and Fiji Acquisition Corporation alleging violation of securities laws in connection with Broadcom's proposed acquisition of Emulex. The complaint sought a declaration of securities laws violations, an injunction, and an award of costs and attorneys fees. Emulex filed an amended complaint in June, which Broadcom moved to dismiss. In July Emulex voluntarily dismissed its complaint.

In May 2009 Emulex filed a complaint in Orange County Superior Court against Broadcom alleging fraud, unfair competition, and intentional interference with contractual relations and prospective economic advantage in connection with Broadcom's proposed acquisition of Emulex. We have not yet answered the complaint and no schedule for the case has yet been set.

From March through August 2006 a number of purported Broadcom shareholders filed putative shareholder derivative actions, the Options Derivative Actions, against Broadcom, each of the then members of our Board of Directors and certain current or former officers, alleging, among other things, that the defendants improperly dated certain Broadcom employee stock option grants. Four of those cases, *Murphy v. McGregor, et al.* (Case No. CV06-3252 R (CWx)), *Shei v. McGregor, et al.* (Case No. SACV06-663 R (CWx)), *Ronconi v. Dull, et al.* (Case No. SACV 06-771 R (CWx)) and *Jin v. Broadcom Corporation, et al.* (Case No. 06CV00573) have been consolidated in the United States District Court for the Central District of California. The plaintiffs filed a consolidated amended complaint in November 2006. In addition, two putative shareholder derivative actions, *Pirelli Armstrong Tire Corp. Retiree Med. Benefits Trust v. Samuelli, et al.* (Case No. 06CC0124) and *Servais v. Samuelli, et al.* (Case No. 06CC0142), were filed in the California Superior Court for the County of Orange. The Superior Court consolidated the state court derivative actions in August 2006, and the plaintiffs filed a consolidated amended complaint in September 2006. The plaintiffs in the Options Derivative Actions contend, among other things, that the defendants' conduct violated United States and California securities laws, breached defendants' fiduciary duties, wasted corporate assets, unjustly enriched the defendants, and caused errors in our consolidated financial statements. The plaintiffs seek, among other things, unspecified damages and disgorgement of profits from the alleged conduct, to be paid to Broadcom.

In January 2007 the California Superior Court granted defendants' motion to stay the state derivative action pending resolution of the prior-filed federal derivative action. In March 2007 the court in the federal derivative action denied our motion to dismiss, which motion was based on the ground that the shareholder plaintiffs lack standing to assert claims on behalf of Broadcom. Motions to dismiss filed by the individual defendants were heard, and mostly denied, in May 2007. Additionally, in May 2007 the Board of Directors established a special litigation committee, the SLC, to decide what course of action Broadcom should pursue in respect of the claims asserted in the Options Derivative Actions. The SLC is currently engaged in its review.

From August through October 2006 several plaintiffs filed purported shareholder class actions in the United States District Court for the Central District of California against Broadcom and certain of our current or former officers and directors, entitled *Bakshi v. Samuelli, et al.* (Case No. 06-5036 R (CWx)), *Mills v. Samuelli, et al.* (Case No. SACV 06-9674 DOC R (CWx)), and *Minnesota Bakers Union Pension Fund, et al. v. Broadcom Corp., et al.* (Case No. SACV 06-970 CJC R (CWx)), the Options Class Actions. The essence of the plaintiffs' allegations is that we improperly backdated stock options, resulting in false or misleading disclosures concerning, among other things, our business and financial condition. Plaintiffs also allege that we failed to account for and pay taxes on stock options properly, that the individual defendants sold our common stock while in possession of material nonpublic information, and that the defendants' conduct caused artificial inflation in our stock price and damages to the putative plaintiff class. The plaintiffs assert claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. In November 2006 the Court consolidated the Options Class Actions and appointed the New Mexico State Investment Council as lead class plaintiff. In October 2007 the federal appeals court resolved a dispute regarding the appointment of lead class counsel. In March 2008 the district judge entered a revised order appointing lead class counsel. The lead plaintiff filed an amended consolidated class action complaint in late April 2008, naming additional defendants including certain current officers and directors of Broadcom as well as Ernst & Young LLP, our former independent registered public accounting firm, or E&Y. In October 2008 the district judge granted defendants' motions to dismiss with leave to amend. In October 2008 the lead plaintiff filed an amended complaint. In November 2008 defendants filed motions to dismiss. On February 2, 2009 these motions were denied except with respect to E&Y and the former Chairman of the Audit Committee, which were granted with leave to

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amend, and with respect to the former Chief Executive Officer, which was granted without leave to amend. The lead plaintiff did not amend its complaint with respect to the former Chairman of the Audit Committee and the time period to do so has expired. With respect to E&Y, in March 2009 the district judge entered a final judgment for E&Y and against the lead plaintiff. We intend to defend the consolidated class action vigorously.

In April 2008 we delivered a Notice of Arbitration and Arbitration Claim to our former independent registered public accounting firm, E&Y, and certain related parties. The arbitration relates to the issues that led to the restatement of Broadcom's financial statements for the periods from 1998 through March 31, 2006 as disclosed in an amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and an amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006, each filed with the SEC January 23, 2007. In May 2008 E&Y delivered a Notice of Defense and Counterclaim. No date for an arbitration hearing has been scheduled.

We have indemnification agreements with each of our present and former directors and officers, under which we are generally required to indemnify each such director or officer against expenses, including attorney's fees, judgments, fines and settlements, arising from the Options Derivative Actions, the Options Class Actions and the pending SEC and U.S. Attorney's Office investigations described below (subject to certain exceptions, including liabilities arising from willful misconduct, from conduct knowingly contrary to the best interests of Broadcom, or conduct that is knowingly fraudulent or deliberately dishonest or results in improper personal benefit). The potential amount of the future payments we could be required to make under these indemnification obligations could be significant and could have a material impact on our results of operations, particularly as the defendants in the criminal and civil actions described below prepare to go to trial in 2009 and 2010. We maintain directors' and officers' insurance policies that may limit our exposure and enable us to recover a portion of the amounts paid with respect to such obligations. However, certain of our insurance carriers have reserved their rights, and in the third quarter of 2008 one of our insurance carriers notified us that coverage was not available and that it intended to suspend payment to us. As a result, we ceased receiving reimbursements under certain policies for our expenses related to these matters. However, in January 2009 we entered into an agreement with that insurance carrier and certain of our other insurance carriers pursuant to which, without prejudicing our rights or the rights of such insurers, we received payments from certain of these insurers under these insurance policies. Nonetheless, if our coverage under these policies is further reduced or eliminated, our potential financial exposure in the pending securities litigation and related government investigations would be increased.

In November 2008 Randy Lee Soderstrom, alleged to have been employed by a former contractor of Broadcom and presently a prisoner in a California state prison, filed a complaint entitled *Soderstrom v. Henry T. Nicholas III, William J. Ruehle, Henry Samuelli, David Dull, Broadcom Corporation* in the United States District Court for the Northern District of California (Case No. CV 08 5310 PVT). In his complaint, Soderstrom sought relief under the Racketeering Influenced and Corrupt Organizations Act (RICO). The complaint made allegations relative to conduct similar to that which is alleged in the Options Derivative Actions and Option Class Actions discussed above, and the SEC and United States Attorney's Office investigations discussed below, but also contained certain different allegations. The plaintiff is representing himself in this action. On May 20, 2009, the Court granted Broadcom's motion to dismiss and also granted the motions to dismiss of all other defendants. A final judgment on behalf of defendants was entered the same day. The plaintiff filed a motion to alter or amend the judgment on June 22, 2009, which was denied on June 25, 2009. The plaintiff has filed a notice of appeal. Broadcom intends to continue to defend this action vigorously.

*SEC Formal Order of Investigation and United States Attorney's Office Investigation.* In April 2008 the SEC brought a complaint against Broadcom alleging violations of the federal securities laws, and we entered into a settlement with the SEC. Without admitting or denying the SEC's allegations, we paid a civil penalty of \$12.0 million, which we recorded as a settlement cost in the three months March 31, 2008, and stipulated to an injunction against future violations of certain provisions of the federal securities laws. The settlement was approved by the United States District Court for the Central District of California Court in late April 2008, thus concluding the SEC's investigation of this matter with respect to Broadcom.

In May 2008 the SEC filed a complaint in the United States District Court for the Central District of California (Case No. SACV08-539 CJC (RNBx)) against Dr. Samuelli and three other former executive officers of Broadcom, relating to its previously-disclosed investigation of the company's historical stock option granting practices. The

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SEC's civil complaint alleges that Dr. Samueli, along with the other defendants, violated the anti-fraud provisions of the federal securities laws, falsified books and records, and caused the company to report false financial results. The SEC's complaint seeks to: (i) enjoin the defendants from future violations of the securities laws; (ii) require two of the defendants to disgorge any ill-gotten gains and pay prejudgment interest; (iii) require all defendants to pay civil monetary penalties; (iv) require two defendants to disgorge bonuses and stock sales profits pursuant to Section 304 of the Sarbanes-Oxley Act of 2002; (v) bar all defendants from serving as officers or directors of a public company; and (vi) provide other appropriate relief. Pending resolution of the SEC action, Dr. Samueli has taken a leave of absence from his position as an executive officer of Broadcom and he resigned from his position as Chairman and a member of the Board of Directors. We do not know when the investigation will be resolved with respect to Dr. Samueli or what actions, if any, the SEC may require him to take in resolution of the investigation against him personally.

In August 2006 we were informally contacted by the U.S. Attorney's Office for the Central District of California and asked to produce documents related to our historical option granting practices. In 2007 and 2008 we continued to provide substantial amounts of documents and information to the U.S. Attorney's Office on a voluntary basis and pursuant to grand jury subpoenas. We are continuing to cooperate with the U.S. Attorney's Office in 2009. In June 2008 Dr. Henry T. Nicholas, III, our former President and Chief Executive Officer and former Co-Chairman of the Board, and William J. Ruehle, our former Chief Financial Officer, were named in an indictment relating to alleged stock options backdating at the company. Also, in June 2008 Dr. Samueli pled guilty to making a materially false statement to the SEC in connection with its investigation of alleged stock options backdating at the company. In September 2008 the United States District Court for the Central District of California rejected Dr. Samueli's plea agreement. Dr. Samueli has appealed the ruling in the United States Court of Appeals for the Ninth Circuit. Any further action by the SEC, the U.S. Attorney's Office or other governmental agency could result in additional civil or criminal sanctions and/or fines against us and/or certain of our current or former officers, directors and/or employees.

*United States Attorney's Office Investigation and Prosecution.* In June 2005 the United States Attorney's Office for the Northern District of California commenced an investigation into the possible misuse of proprietary competitor information by certain Broadcom employees. In December 2005 one former employee was indicted for fraud and related activity in connection with computers and trade secret misappropriation. The former employee had been immediately suspended in June 2005, after just two months' employment, when we learned about the government investigation. Following an internal investigation, his employment was terminated, nearly two months prior to the indictment. The indictment does not allege any wrongdoing by us, and we are cooperating fully with the ongoing investigation and the prosecution.

*General.* We and our subsidiaries are also involved in other legal proceedings, claims and litigation arising in the ordinary course of business.

The pending proceedings involve complex questions of fact and law and will require the expenditure of significant funds and the diversion of other resources to prosecute and defend. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible. The resolution of intellectual property litigation may require us to pay damages for past infringement or to obtain a license under the other party's intellectual property rights that could require one-time license fees or ongoing royalties, which could adversely impact our product gross margins in future periods, or could prevent us from manufacturing or selling some of our products or limit or restrict the type of work that employees involved in such litigation may perform for us. From time to time we may enter into confidential discussions regarding the potential settlement of pending litigation or other proceedings; however, there can be no assurance that any such discussions will occur or will result in a settlement. The settlement of any pending litigation or other proceeding could require us to incur substantial settlement payments and costs. In addition, the settlement of any intellectual property proceeding may require us to grant a license to certain of our intellectual property rights to the other party under a cross-license agreement. If any of those events were to occur, our business, financial condition and results of operations could be materially and adversely affected.

**10. Subsequent Events**

On April 21, 2009 we announced that we had sent an unsolicited proposal to the Board of Directors of Emulex to acquire all of the outstanding shares of Emulex common stock for \$9.25 per share in cash or a total of approximately \$764.0 million. On June 29, 2009 we increased our offer for all of the currently outstanding shares of common stock (including the associated preferred stock purchase rights) of Emulex from \$9.25 to \$11.00 per share in cash, representing a total equity value of approximately \$912.0 million. Our offer to acquire all of the outstanding shares of Emulex expired at midnight, July 14, 2009. At the expiration of the offer, certain conditions to the offer had not been met, and we had not waived those conditions. Therefore, no shares were purchased by us in the offer, and all shares previously tendered and not withdrawn were promptly returned.

In accordance with SFAS 165, we have evaluated subsequent events through July 23, 2009, the date of issuance of the unaudited condensed consolidated financial statements. During this period we did not have any material recognizable subsequent events. However, we did have a nonrecognizable subsequent event related to the expiration of our offer to acquire all of the outstanding shares of Emulex.

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

**Cautionary Statement**

*You should read the following discussion and analysis in conjunction with our Unaudited Condensed Consolidated Financial Statements and the related Notes thereto contained in Part I, Item 1 of this Report. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Report and in our other reports filed with the Securities and Exchange Commission, or SEC, including our Annual Report on Form 10-K for the year ended December 31, 2008 and subsequent reports on Forms 10-Q and 8-K, which discuss our business in greater detail.*

*The section entitled "Risk Factors" contained in Part II, Item 1A of this Report, and similar discussions in our other SEC filings, describe some of the important risk factors that may affect our business, financial condition, results of operations and/or liquidity. You should carefully consider those risks, in addition to the other information in this Report and in our other filings with the SEC, before deciding to purchase, hold or sell our common stock.*

*All statements included or incorporated by reference in this Quarterly Report on Form 10-Q, other than statements or characterizations of historical fact, are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements concerning projected net revenue, costs and expenses and product gross margin; our accounting estimates, assumptions and judgments; the impact of the January 2007 restatement of our financial statements for prior periods and related litigation; estimates related to the amount and/or timing of the expensing of unearned stock-based compensation expense; our success in pending litigation; the demand for our products; the effect that current economic conditions, seasonality and volume fluctuations in the demand for our customers' consumer-oriented products will have on our quarterly operating results; our dependence on a few key customers and/or design wins for a substantial portion of our revenue; our ability to adjust operations in response to changes in demand for existing products and services or the demand for new products requested by our customers; the competitive nature of and anticipated growth in our markets; our ability to migrate to smaller process geometries; manufacturing, assembly and test capacity; our ability to consummate acquisitions and integrate their operations successfully; our potential needs for additional capital; inventory and accounts receivable levels; the impact of the IRS review of certain income and employment tax returns on our results of operations; the effect of potential changes in U.S. or foreign tax laws and regulations or the interpretation thereof; the level of accrued rebates and our plans to implement cost savings measures. These forward-looking statements are based on our current expectations, estimates and projections about our industry and business, management's beliefs, and certain assumptions made by us, all of which are subject to change. Forward-looking statements can often be identified by words such as "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "should," "would," "could," "potential," "continue," "ongoing," similar expressions, and variations or negatives of these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under the section entitled "Risk Factors" in Part II, Item 1A of this Report. These forward-looking statements speak only as of the date of this Report. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.*

**Overview**

Broadcom Corporation is a major technology innovator and global leader in semiconductors for wired and wireless communications. Our products enable the delivery of voice, video, data and multimedia to and throughout the home, the office and the mobile environment. Broadcom provides the industry's broadest portfolio of state-of-the-art system-on-a-chip and software solutions to manufacturers of computing and networking equipment, digital entertainment and broadband access products, and mobile devices. Our diverse product portfolio includes solutions for digital cable, satellite and Internet Protocol (IP) set-top boxes and media servers; high definition television (HDTV); high definition DVD players and personal video recording (PVR) devices; cable and DSL modems and residential gateways; high-speed transmission and switching for local, metropolitan, wide area and storage networking; server solutions; broadband network and security processors; wireless and personal area networking; cellular communications; global positioning system (GPS) applications; mobile multimedia and applications processors; mobile power management; and Voice over Internet Protocol (VoIP) gateway and telephony systems.

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*Net Revenue.* Our product revenue is generated principally by sales of semiconductor devices and, to a lesser extent, software licenses and royalties, development, support and maintenance agreements, data services and cancellation fees. Our licensing revenue is generated from the licensing of intellectual property. The majority of our sales occur through the efforts of our direct sales force. The remaining balance of our sales occurs through distributors.

We sell our products to leading manufacturers of wired and wireless communications equipment in each of our target markets. Because we leverage our technologies across different markets, certain of our integrated circuits may be incorporated into equipment used in multiple markets. We utilize independent foundries and third-party subcontractors to manufacture, assemble and test all of our semiconductor products.

The following table presents details of our total net revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Product revenue <sup>(1)</sup>	92.9%	96.8%	94.8%	96.5%
Licensing revenue	7.1	3.2	5.2	3.5
Total net revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Includes software licenses and royalties, support and maintenance agreements, data services and cancellation fees totaling less than 0.7% of total net revenue for all periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales made through direct sales force	80.3%	85.1%	81.5%	85.9%
Sales made through distributors <sup>(1)</sup>	19.7	14.9	18.5	14.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Sales made through distributors as a percentage of net revenue increased in the three and six months ended June 30, 2009 due to increased sales of our mobile and wireless products, principally in Asia.

The demand for our products has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- general economic and political conditions and specific conditions in the markets we address, including the continuing volatility in the technology sector and semiconductor industry, the current global economic recession, trends in the broadband communications markets in various geographic regions, including seasonality in sales of consumer products into which our products are incorporated;
- the inability of certain of our customers who depend on credit to have access to their traditional sources of credit to finance the purchase of products from us or purchases of capital equipment from others, particularly in the current global economic environment, which may lead them to reduce their level of purchases or to seek credit or other accommodations from us;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;
- our ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a cost effective and timely manner;
- the rate at which our present and future customers and end-users adopt our products and technologies in our target markets; and
- the qualification, availability and pricing of competing products and technologies and the resulting effects on sales and pricing of our products.

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For these and other reasons, our net revenue and results of operations for the three months ended June 30, 2009 and prior periods may not necessarily be indicative of future net revenue and results of operations.

From time to time, our key customers place large orders causing our quarterly net revenue to fluctuate significantly. We expect that these fluctuations will continue and that they may be exaggerated by the increasing volume of our products that are incorporated into consumer electronic products, sales of which can be subject to greater volume fluctuations than non-consumer OEM products. In addition, an increasing percentage of our inventory is maintained under hubbing arrangements with certain of our customers. Pursuant to these arrangements we deliver products to a customer or a designated third party warehouse based upon the customer's projected needs, but do not recognize product revenue unless and until the customer reports that it has removed our product from the warehouse to incorporate into its end products. Historically, we have had good visibility into customer requirements and shipments within a quarter. However, if a customer does not take our products under a hubbing arrangement in accordance with the schedule it originally provided to us, our predicted future revenue stream could vary substantially from our forecasts and our results of operations could be materially and adversely affected. Additionally, since we own inventory that is physically located in a third party's warehouse, our ability to effectively manage inventory levels may be impaired, causing our total inventory turns to decrease, which could increase expenses associated with excess and obsolete product and negatively impact our cash flow.

Sales to our five largest customers, including sales to their manufacturing subcontractors, as a percentage of net revenue were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Five largest customers as a group	35.4%	38.0%	33.2%	37.3%

As we have broadened our customer base, net revenue derived from these top customers as a percentage of net revenue has decreased, even though the absolute dollars of net revenue have increased in some cases. However, we expect that our largest customers will continue to account for a substantial portion of our net revenue for the remainder of 2009 and for the foreseeable future. The identities of our largest customers and their respective contributions to our net revenue have varied and will likely continue to vary from period to period. The decrease in net revenue from our top customers as a percentage of net revenue was primarily related to reduced sales, a change in the identity of our five largest customers and a related change in product mix.

Net revenue derived from all independent customers located outside the United States, excluding foreign subsidiaries or manufacturing subcontractors of customers that are headquartered in the United States even though such subsidiaries or manufacturing subcontractors are located outside of the United States, as a percentage of total net revenue was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Asia (primarily in Korea, China, Japan and Taiwan)	34.8%	29.9%	35.2%	28.7%
Europe (primarily in Finland, the United Kingdom and France)	13.0	9.5	12.9	9.6
Other	0.5	0.5	0.5	0.5
	<u>48.3%</u>	<u>39.9%</u>	<u>48.6%</u>	<u>38.8%</u>

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Net revenue derived from shipments to international destinations, as a percentage of total net revenue was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Asia (primarily in China, Hong Kong, Japan, Singapore and Taiwan)	83.8%	83.8%	84.3%	81.3%
Europe (primarily in Hungary, Germany, France and Sweden)	2.5	2.2	3.1	2.6
Other	1.6	2.7	1.6	3.0
	<u>87.9%</u>	<u>88.7%</u>	<u>89.0%</u>	<u>86.9%</u>

All of our revenue to date has been denominated in U.S. dollars.

*Product Gross Margin.* Our product gross margin, or gross profit as a percentage of net product revenue, has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- our product mix and volume of product sales (including sales to high volume customers);
- the positions of our products in their respective life cycles;
- the effects of competition;
- the effects of competitive pricing programs and rebates;
- provisions for excess and obsolete inventories and their relationship to demand volatility;
- manufacturing cost efficiencies and inefficiencies;
- fluctuations in direct product costs such as wafer pricing and assembly, packaging and testing costs, and other fixed costs;
- our ability to create cost advantages through successful integration and convergence;
- licensing royalties payable by us;
- product warranty costs;
- amortization of purchased intangible assets;
- stock-based compensation expense; and
- reversals of unclaimed rebates and warranty reserves.

*Net Income (Loss).* Our net income (loss) has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- stock-based compensation expense;
- required levels of research and development and other operating costs;
- licensing of intellectual property;
- in-process research and development, or IPR&D;
- litigation costs and insurance recoveries;

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- settlement costs or gains;
- charitable contributions;
- income tax benefits from adjustments to tax reserves of foreign subsidiaries;
- the loss of interest income resulting from lower average interest rates and investment balance reductions resulting from expenditures on repurchases of our Class A common stock;
- amortization of purchased intangible assets;
- impairment of goodwill and long-lived assets;
- deferral of revenue under multiple-element arrangements;
- other-than-temporary impairment of marketable securities and strategic investments;
- gain (loss) on strategic investments; and
- restructuring costs or reversals thereof.

In the three months ended June 30, 2009 our net income was \$13.4 million as compared to net income of \$134.8 million in the three months ended June 30, 2008, a difference of \$121.4 million. This decrease in profitability was the direct result of \$159.7 million less product gross profit principally due to declining revenue and product gross margins, a \$50.0 million charitable contribution and an increase in impairment of long-lived assets of \$9.4 million, offset in part by \$34.7 million of additional licensing revenue and a net settlement gain of \$58.4 million.

Net revenue in the three months ended June 30, 2009 decreased significantly in our broadband communications and enterprise networking target markets, offset in part by a moderate increase in net revenue in our mobile and wireless target market. The decrease in net revenue from our broadband communications target market resulted primarily from a decrease in demand for broadband modems and digital set-top boxes, offset in part by an increase in demand for our high definition DVD products. The increase in net revenue from our mobile and wireless target market resulted primarily from an increase in demand for our cellular, wireless LAN and touch controller product offerings, offset in part by a decrease in demand for our Bluetooth products. Also reflected in our mobile and wireless target market was an increase in licensing revenue of \$34.7 million primarily as a result of our licensing agreement with QUALCOMM Incorporated, or Qualcomm. See discussion under “*Settlement and Patent License and Non-Assert Agreement*” below. The decrease in net revenue from our enterprise networking target market resulted primarily from a broad-based decline in demand for our Ethernet switch and controller products.

In the six months ended June 30, 2009 our net loss was \$78.5 million as compared to net income of \$209.1 million in the six months ended June 30, 2008, a difference of \$287.6 million. This decrease in profitability was the direct result of \$289.6 million less product gross profit principally due to declining revenue and product gross margins, a \$50.0 million charitable contribution and an increase in impairment of long-lived assets of \$9.4 million, offset in part by \$20.7 million of additional licensing revenue and a net settlement gain of \$73.1 million.

Net revenue in the six months ended June 30, 2009 significantly decreased in our broadband communications and enterprise networking target markets, offset in part by a moderate increase in net revenue in our mobile and wireless target market. The decrease in net revenue from our broadband communications target market resulted primarily from a decrease in demand for broadband modems and digital set-top boxes, offset in part by an increase in demand for our high definition DVD products. The increase in net revenue from our mobile and wireless target market resulted primarily from an increase in demand for our cellular, wireless LAN and touch controller product offerings, offset in part by a decrease in demand for our Bluetooth and VoIP products. Also reflected in our mobile and wireless target market was an increase in licensing revenue of \$20.7 million primarily as a result of our licensing agreement with Qualcomm. The decrease in net revenue from our enterprise networking target market resulted primarily from a broad-based decline in demand for our Ethernet switch and controller products.

While we expect research and development costs to remain relatively flat over the short term, they will continue to increase over the long term as a result of growth in, and the diversification of, the markets we serve, new product

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opportunities, the number of design wins that go into production, changes in our compensation policies, and any expansion into new markets and technologies.

We currently do not believe the acquisition of the DTV Business of AMD, Inc. in late 2008 will achieve earnings neutrality by the end of 2009 as a result of the decline in global demand due to the continued economic downturn. In the three and six months ended June 30, 2009 we recorded an impairment charge to customer relationships of \$11.3 million. The primary factor contributing to this impairment charge was the result of a reduction in the revenue outlook from an acquired customer.

*Settlement and Patent License and Non-Assert Agreement.* On April 26, 2009 we entered into a Settlement and Patent License and Non-Assert Agreement, or the Qualcomm Agreement, with Qualcomm. As part of the Qualcomm Agreement, each party granted certain rights under its patent portfolio to the other party including, in certain circumstances, under future patents issued within one to four years after April 26, 2009. The term of the Qualcomm Agreement commenced April 26, 2009 and will continue until the expiration of the last to expire of the covered patents. The Qualcomm Agreement also resulted in the parties dismissing with prejudice all outstanding litigation between them, and in Broadcom withdrawing its complaints with foreign competition authorities.

In addition, certain patents were assigned by Broadcom to Qualcomm with Broadcom retaining a royalty-free license under these patents. Also, Qualcomm will make payments to Broadcom totaling \$891.2 million, of which \$200.0 million was paid in the three months ended June 30, 2009. The remaining balance will be paid in sixteen equal and successive quarterly payments of \$43.2 million each, starting in the three months ending September 30, 2009 and concluding in the three months ending June 30, 2013.

We determined the estimated fair values of the individual components of the Qualcomm Agreement and used the relative fair value method to allocate the payment amounts to the individual components of the gain on settlement and revenue from the licensing of our intellectual property. In the three months ended June 30, 2009 we recorded a gain on settlement of outstanding litigation related to intellectual property of \$65.3 million, which represents the estimated relative fair value of the settlement for Qualcomm's past infringement. The fair value of this amount was primarily established based on awards determined by the United States District Court for the Central District of California.

The estimated relative fair value of the licensing revenue as well as the assignment of patents of \$825.9 million will be recorded as a single unit of accounting and recognized over the Qualcomm Agreement's performance period of four years. In the three months ended June 30, 2009, we recorded licensing revenue of \$36.7 million and expect to record licensing revenue in equal quarterly amounts of \$51.7 million for the quarters ending September 30, 2009 through March 31, 2012, \$47.7 million in the three months ending June 30, 2012 and \$43.2 million in each of the following four quarters ending June 30, 2013. At June 30, 2009 we recorded deferred revenue of \$97.9 million related to the initial payment.

Separately, we recorded licensing revenue of \$30.5 million in the three months ended June 30, 2009 related to additional payments made by Qualcomm during 2008 for shipments from May 2007 through December 31, 2008, related to a permanent injunction on certain products. These amounts were previously deferred due to continuing litigation appeals, which have been resolved through the Qualcomm Agreement.

*Product Cycles.* The cycle for test, evaluation and adoption of our products by customers can range from three to more than nine months, with an additional three to more than twelve months before a customer commences volume production of equipment incorporating our products. Due to this lengthy sales cycle, we may experience significant delays from the time we incur expenses for research and development, selling, general and administrative efforts, and investments in inventory, to the time we generate corresponding revenue, if any. The rate of new orders may vary significantly from month to month and quarter to quarter. If anticipated sales or shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our results of operations for that quarter, and potentially for future quarters, would be materially and adversely affected.

*Mobile Platforms Business.* The development and introduction of new products often requires substantial research and development resources. During the last five years we have incurred substantial expenditures on the development of new products for the cellular handset market. Approximately 25% of our research and development expense is attributable to our mobile platforms business. However, this market is characterized by very long product development and sales cycles due to the significant qualification requirements of cellular handset makers and

wireless network operators, and accordingly, it is common to experience significant delays from the time research and development efforts commence to the time corresponding revenues are generated. Due to these lengthy product development and sales cycles, our mobile platforms business had a material negative impact on our earnings in 2008, including impairment charges of \$169.4 million recorded in the three months ended December 31, 2008 relating to this business, and may continue to do so until we realize significant cellular revenues.

Most of the revenue that we derived from our mobile platforms business in the three and six months ended June 30, 2009 related to the licensing of our intellectual property. Although we have started to generate additional revenue from our cellular handset products in the three months ended June 30, 2009, it is possible that our customers may delay further product development plans or that their products will not be commercially successful, which would continue to materially and adversely affect our results of operations.

*Acquisition Strategy.* An element of our business strategy involves the acquisition of businesses, assets, products or technologies that allow us to reduce the time required to develop new technologies and products and bring them to market, incorporate enhanced functionality into and complement our existing product offerings, augment our engineering workforce, and enhance our technological capabilities. We plan to continue to evaluate strategic opportunities as they arise, including acquisitions and other business combination transactions, strategic relationships, capital infusions and the purchase or sale of assets.

*Business Enterprise Segments.* We operate in one reportable operating segment, wired and wireless broadband communications. SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or SFAS 131, 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. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. Our Chief Executive Officer, who is considered to be our chief operating decision maker, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance.

Although we have four operating segments, under the aggregation criteria set forth in SFAS 131 we operate in only one reportable operating segment, wired and wireless broadband communications.

### Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles, or GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses in the reporting period. We regularly evaluate our estimates and assumptions related to revenue recognition, rebates, allowances for doubtful accounts, sales returns and allowances, warranty reserves, inventory reserves, stock-based compensation expense, goodwill and purchased intangible asset valuations, strategic investments, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, self-insurance, restructuring costs, litigation and other loss contingencies. 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 recording of revenue, 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. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

We believe the following are either (i) critical accounting policies that require us to make significant estimates or assumptions in the preparation of our unaudited condensed consolidated financial statements or (ii) other key accounting policies that generally do not require us to make estimates or assumptions but may require us to make difficult or subjective judgments:

- *Net Revenue.* We recognize product revenue when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) our price to the customer is fixed or determinable and (iv) collection of the resulting accounts receivable is reasonably assured. These criteria are usually met at the time of product shipment. However, we do not recognize revenue when any significant obligations remain. Customer purchase orders and/or contracts are generally used to determine the existence of an arrangement. Shipping documents are used to verify product delivery. We assess whether a price is

fixed or determinable based upon the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess the collectibility of our accounts receivable based primarily upon the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

In arrangements in which our semiconductor products and software are delivered concurrently and post-contract customer support is not provided, we recognize revenue upon shipment of the semiconductor product, assuming all other basic revenue recognition criteria are met, as both the semiconductor products and software are considered delivered elements and no undelivered elements exist. In limited instances in which there are undelivered elements, we allocate revenue based on the relative fair value of the individual elements. If there is no established fair value for an undelivered element, the entire arrangement is accounted for as a single unit of accounting, resulting in a deferral of revenue and costs for the delivered element until the undelivered element has been fulfilled. In the case that the undelivered element is data or a support service, the revenue and costs applicable to both the delivered and undelivered elements are recorded ratably over the respective service period or estimated product life. If the undelivered element is essential to the functionality of the delivered element, no revenue or costs are recognized until the undelivered element is delivered. If we enter into future multiple element arrangements in which the fair value of each deliverable is not known, the portion of revenue we recognize on a deferred basis may vary significantly in any given quarter, which could cause even greater fluctuations in our quarterly operating results.

A portion of our sales is made through distributors under agreements allowing for pricing credits and/or rights of return. These pricing credits and/or rights of return provisions prevent us from being able to reasonably estimate the final price of the inventory to be sold and the amount of inventory that could be returned pursuant to these agreements. As a result, the price to the customer is not fixed or determinable at the time we deliver products to our distributors. Accordingly, product revenue from sales made through these distributors is not recognized until the distributors ship the product to their customers. We also maintain inventory, or hubbing, arrangements with certain of our customers. Pursuant to these arrangements we deliver products to a customer or a designated third party warehouse based upon the customer's projected needs, but do not recognize product revenue unless and until the customer reports it has removed our product from the warehouse to be incorporated into its end products. Historically, we have had good visibility into customer requirements and shipments within a quarter. However, if a customer does not take our products under a hubbing arrangement in accordance with the schedule it originally provided to us, our future revenue stream could vary substantially from our forecasts and our results of operations could be materially and adversely affected. In addition, distributors and customers with hubbing arrangements provide us with periodic data regarding product, price, quantity, and customers when products are shipped to their customers, as well as the quantities of our products that they still have in stock. For specialized shipping terms we may rely on data provided by our freight forwarding providers. For our royalty revenue we rely on data provided by the licensee. Any error in the data provided to us by customers, distributors or other third parties could lead to inaccurate reporting of our total net revenue and net income.

We record deferred revenue when advance payments are received from customers before performance obligations have been completed and/or services have been performed. Deferred revenue does not include amounts from products delivered to distributors that the distributors have not yet sold through to their end customers.

- *Sales Returns, Pricing Adjustments and Allowance for Doubtful Accounts.* We record reductions of revenue for estimated product returns and pricing adjustments, such as competitive pricing programs and rebates, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns, analysis of credit memo data, specific criteria included in rebate agreements, and other factors known at the time. We accrue 100% of potential rebates at the time of sale and do not apply a breakage factor. We reverse the accrual of unclaimed rebate amounts as specific rebate programs contractually end or when we believe unclaimed rebates are no longer subject to payment and will not be paid. Thus the reversal of unclaimed rebates may have a positive impact on our net revenue and net income in subsequent periods. Additional reductions of revenue would result if actual product returns or pricing adjustments exceed our estimates. We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of any customer were to

deteriorate, resulting in an impairment of its ability to make payments, additional allowances could be required.

- *Inventory and Warranty Reserves.* We establish inventory reserves for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions. If actual demand and market conditions are less favorable than those projected by management, additional inventory reserves could be required. Under the hubbing arrangements that we maintain with certain customers, we own inventory that is physically located in a customer's or third party's warehouse. As a result, our ability to effectively manage inventory levels may be impaired, which would cause our total inventory turns to decrease. In that event, our expenses associated with excess and obsolete inventory could increase and our cash flow could be negatively impacted. Our products typically carry a one to three year warranty. We establish reserves for estimated product warranty costs at the time revenue is recognized. Although we engage in extensive product quality programs and processes, our warranty obligation has been and may in the future be affected by product failure rates, product recalls, repair or field replacement costs and additional development costs incurred in correcting any product failure, as well as possible claims for consequential costs. Should actual product failure rates, use of materials or service delivery costs differ from our estimates, additional warranty reserves could be required. In that event, our product gross margins would be reduced.
- *Stock- Based Compensation Expense.* SFAS 123R requires all share-based payments, including grants of stock options, restricted stock units and employee stock purchase rights, to be recognized in our financial statements based upon their respective grant date fair values. Under this standard, the fair value of each employee stock option and employee stock purchase right is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our stock options and stock purchase rights. The Black-Scholes model meets the requirements of SFAS 123R but the fair values generated by the model may not be indicative of the actual fair values of our equity awards as it does not consider certain factors important to those awards to employees, such as continued employment and periodic vesting requirements as well as limited transferability. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. We use the implied volatility for traded options on our stock as the expected volatility assumption required in the Black-Scholes model. Our selection of the implied volatility approach is based on the availability of data regarding actively traded options on our stock as we believe that implied volatility is more representative of fair value than historical volatility. The expected life of the stock options is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of our stock options and stock purchase rights. The dividend yield assumption is based on our history and expectation of no dividend payouts. The fair value of our restricted stock units is based on the closing market price of our Class A common stock on the date of grant. We evaluate the assumptions used to value stock awards on a quarterly basis. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. To the extent that we grant additional equity securities to employees or we assume unvested securities in connection with any acquisitions, our stock-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions.
- *Goodwill and Purchased Intangible Assets.* Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets (including in-process research and development) acquired. Prior to 2009 in-process research and development was expensed immediately. The amounts and useful lives assigned to intangible assets acquired, other than goodwill, impact the amount and timing of future amortization thereof. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) any future declines in our operating results, (ii) a decline in the valuation of technology company stocks, including the valuation of our common stock, (iii) a further significant slowdown in the worldwide economy or the semiconductor industry or (iv) any failure to meet the performance projections included in our forecasts of future operating

results. We evaluate these assets, including purchased intangible assets deemed to have indefinite lives, on an annual basis in the fourth quarter or more frequently if we believe indicators of impairment exist. In the process of our annual impairment review, we primarily use the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value of our intangible assets. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation. It is possible, however, that the plans may change and estimates used may prove to be inaccurate. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

- *Deferred Taxes and Uncertain Tax Positions.* We utilize the asset and liability method of accounting for income taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of our cumulative losses in the U.S. and certain foreign jurisdictions, our U.S. tax losses after tax deductions for stock-based compensation, and the full utilization of our loss carryback opportunities, we have concluded that a full valuation allowance against our net deferred tax assets is appropriate in the U.S. and certain foreign jurisdictions. In certain other foreign jurisdictions where we do not have cumulative losses, we record valuation allowances to reduce our net deferred tax assets to the amount we believe is more likely than not to be realized. In the future, if we realize a deferred tax asset that currently carries a valuation allowance, we may record a reduction of income tax expense in the period of such realization. In July 2006 the FASB, issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109*, or FIN 48, which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Under FIN 48, tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Prior to 2007 we recorded estimated income tax liabilities to the extent they were probable and could be reasonably estimated. As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.
- *Litigation and Settlement Costs.* We are involved in disputes, litigation and other legal proceedings. We prosecute and defend these matters aggressively. However, there are many uncertainties associated with any litigation, and we cannot assure you that these actions or other third party claims against us will be resolved without costly litigation and/or substantial settlement charges. In addition, the resolution of intellectual property litigation may require us to pay damages for past infringement or to obtain a license under the other party's intellectual property rights that could require one-time license fees or running royalties, which could adversely impact product gross margins in future periods, or could prevent us from manufacturing or selling some of our products or limit or restrict the type of work that employees involved in such litigation may perform for Broadcom. If any of those events were to occur, our business, financial condition and results of operations could be materially and adversely affected. We record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the amount or range of loss can be reasonably estimated. However, the actual liability in any such disputes or litigation may be

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materially different from our estimates, which could result in the need to record additional costs.

### *Results of Operations for the Three and Six Months Ended June 30, 2009 Compared to the Three and Six Months Ended June 30, 2008*

The following table sets forth certain unaudited condensed consolidated statements of operations data expressed as a percentage of net revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net revenue:				
Product revenue	92.9%	96.8%	94.8%	96.5%
Licensing revenue	7.1	3.2	5.2	3.5
Total net revenue	100.0	100.0	100.0	100.0
Operating costs and expenses:				
Cost of product revenue	49.9	46.2	51.0	46.4
Research and development	36.0	31.6	39.5	32.9
Selling, general and administrative	12.3	11.8	13.3	11.4
Amortization of purchased intangible assets	0.4	—	0.4	—
In-process research and development	—	—	—	0.5
Impairment of long-lived assets	1.1	0.2	0.6	0.1
Restructuring costs (reversals)	—	(0.1)	0.4	—
Settlement costs (gains)	(5.6)	—	(3.0)	0.7
Charitable contribution	4.8	—	2.6	—
Total operating costs and expenses	98.9	89.7	104.8	92.0
Income (loss) from operations	1.1	10.3	(4.8)	8.0
Interest income, net	0.4	1.0	0.5	1.5
Other income (expense), net	0.1	—	0.1	—
Income (loss) before income taxes	1.6	11.3	(4.2)	9.5
Provision (benefit) for income taxes	0.3	0.1	(0.1)	0.1
Net income (loss)	1.3%	11.2%	(4.1)%	9.4%

The following table presents details of total stock-based compensation expense as a percentage of net revenue *included* in each functional line item in the unaudited condensed consolidated statements of operations data above:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cost of product revenue	0.6%	0.5%	0.6%	0.5%
Research and development	8.3	7.5	9.3	7.6
Selling, general and administrative	2.9	2.6	3.1	2.7

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### Net Revenue, Cost of Product Revenue, Product Gross Margin and Total Gross Margin

The following tables present net revenue, cost of product revenue and product gross margin for the three and six months ended June 30, 2009 and 2008 and the three months ended June 30, 2009 and March 31, 2009:

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008		Increase (Decrease)	% Change in Amount
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Product revenue <sup>(1)</sup>	\$ 966,317	92.9%	\$1,161,965	96.8%	\$(195,648)	(16.8)%
Licensing revenue	73,627	7.1	38,966	3.2	34,661	89.0
Total net revenue	<u>\$1,039,944</u>	<u>100.0%</u>	<u>\$1,200,931</u>	<u>100.0%</u>	<u>\$(160,987)</u>	<u>(13.4)</u>
Cost of product revenue <sup>(2)</sup>	\$ 518,674	49.9%	\$ 554,596	46.2%	\$ (35,922)	(6.5)
Product gross margin <sup>(3)</sup>	46.3%		52.3%		(6.0)%	
Total gross margin <sup>(3)</sup>	<u>50.1%</u>		<u>53.8%</u>		<u>(3.7)%</u>	

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008		Increase (Decrease)	% Change in Amount
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Product revenue <sup>(1)</sup>	\$1,794,547	94.8%	\$2,154,968	96.5%	\$(360,421)	(16.7)%
Licensing revenue	98,833	5.2	78,173	3.5	20,660	26.4
Total net revenue	<u>\$1,893,380</u>	<u>100.0%</u>	<u>\$2,233,141</u>	<u>100.0%</u>	<u>\$(339,761)</u>	<u>(15.2)</u>
Cost of product revenue <sup>(2)</sup>	\$ 964,951	51.0%	\$1,035,759	46.4%	\$ (70,808)	(6.8)
Product gross margin <sup>(3)</sup>	46.2%		51.9%		(5.7)%	
Total gross margin <sup>(3)</sup>	<u>49.0%</u>		<u>53.6%</u>		<u>(4.6)%</u>	

	Three Months Ended June 30, 2009		Three Months Ended March 31, 2009		Increase	% Change in Amount
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Product revenue <sup>(1)</sup>	\$ 966,317	92.9%	\$828,230	97.0%	\$138,087	16.7%
Licensing revenue	73,627	7.1	25,206	3.0	48,421	192.1
Total net revenue	<u>\$1,039,944</u>	<u>100.0%</u>	<u>\$853,436</u>	<u>100.0%</u>	<u>\$186,508</u>	<u>21.9</u>
Cost of product revenue <sup>(2)</sup>	\$ 518,674	49.9%	\$446,277	52.3%	\$ 72,397	16.2
Product gross margin <sup>(3)</sup>	46.3%		46.1%		0.2%	
Total gross margin <sup>(3)</sup>	<u>50.1%</u>		<u>47.7%</u>		<u>2.4%</u>	

(1) Includes software licenses and royalties, development, support and maintenance agreements, data services and cancellation fees of less than 0.7% of total net revenue for all periods presented.

(2) Includes stock-based compensation expense resulting from stock options, stock purchase rights and restricted stock units we issued or assumed in acquisitions. For a further discussion of stock-based compensation expense, see the section entitled "Stock-Based Compensation Expense" below.

(3) Due to the separate presentation of product revenue and licensing revenue implemented in the three months ended June 30, 2009, the tables include product gross margin in addition to our previously reported total gross margin.

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*Net Revenue.* Our product revenue is generated principally by sales of our semiconductor devices. Our broadband communications products include solutions for cable modems, DSL applications, digital cable, direct broadcast satellite and IP set-top boxes, digital TVs and high definition DVD and personal video recording devices. Our mobile and wireless products include wireless LAN, cellular, touch controller, GPS, Bluetooth, mobile multimedia and applications processors, mobile power management and VoIP solutions. Our enterprise networking products include Ethernet transceivers, controllers, switches, broadband network and security processors and server chipsets. Our licensing revenue is generated by the licensing of our intellectual property, primarily patents, and is included in our mobile and wireless target market presentation below.

Net revenue is revenue less reductions for rebates and provisions for returns and allowances.

The following table presents net revenue from each of our major target markets and its respective contribution to net revenue in the three months ended June 30, 2009 as compared to the three months ended June 30, 2008:

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008		Increase (Decrease)	% Change in Amount
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Broadband communications	\$ 363,843	35.0%	\$ 457,924	38.1%	\$ (94,081)	(20.5)%
Mobile and wireless	465,748	44.8	414,471	34.5	51,277	12.4
Enterprise networking	210,353	20.2	328,536	27.4	(118,183)	(36.0)
Net revenue	<u>\$1,039,944</u>	<u>100.0%</u>	<u>\$1,200,931</u>	<u>100.0%</u>	<u>\$(160,987)</u>	<u>(13.4)</u>

The decrease in net revenue from our broadband communications target market resulted primarily from a decrease in demand for broadband modems and digital set-top boxes, offset in part by an increase in demand for our high definition DVD products. The increase in net revenue from our mobile and wireless target market resulted primarily from an increase in demand for our cellular, wireless LAN and touch controller product offerings, offset in part by a decrease in demand for our Bluetooth products. Also reflected in our mobile and wireless target market was an increase in licensing revenue of \$34.7 million primarily as a result of the Qualcomm Agreement. The decrease in net revenue from our enterprise networking target market resulted primarily from a broad-based decline in demand for our Ethernet switch and controller products.

The following table presents net revenue from each of our major target markets and its respective contribution to net revenue in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008:

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008		Increase (Decrease)	% Change in Amount
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Broadband communications	\$ 681,097	36.0%	\$ 823,365	36.9%	\$(142,268)	(17.3)%
Mobile and wireless	783,579	41.4	773,499	34.6	10,080	1.3
Enterprise networking	428,704	22.6	636,277	28.5	(207,573)	(32.6)
Net revenue	<u>\$1,893,380</u>	<u>100.0%</u>	<u>\$2,233,141</u>	<u>100.0%</u>	<u>\$(339,761)</u>	<u>(15.2)</u>

The decrease in net revenue from our broadband communications target market resulted primarily from a decrease in demand for broadband modems and digital set-top boxes, offset in part by an increase in demand for our high definition DVD products. The increase in net revenue from our mobile and wireless target market resulted primarily from an increase in demand for our cellular, wireless LAN and touch controller product offerings, offset in part by a decrease in demand for our Bluetooth and VoIP products. Also reflected in our mobile and wireless target

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market was an increase in licensing revenue of \$20.7 million as a result of the Qualcomm Agreement. The decrease in net revenue from our enterprise networking target market resulted primarily from a broad-based decline in demand for our Ethernet switch and controller products.

We recorded rebates to certain customers of \$70.0 million and \$55.3 million in the three months ended June 30, 2009 and 2008, respectively, and \$120.6 million and \$110.4 million in the six months ended June 30, 2009 and 2008, respectively. We account for rebates in accordance with EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, or EITF 01-9, and, accordingly, at the time of the sale we accrue 100% of the potential rebate as a reduction of revenue and do not apply a breakage factor. The amount of these reductions is based upon the terms included in our various rebate agreements. We anticipate that accrued rebates will vary in future periods based upon the level of overall sales to customers that participate in our rebate programs. We reverse the accrual of unclaimed rebate amounts as specific rebate programs contractually end or when we believe unclaimed rebates are no longer subject to payment and will not be paid. We reversed accrued rebates of (i) \$4.7 million and \$11.2 million in the three months ended June 30, 2009 and 2008, respectively, and (ii) \$7.6 million and \$26.5 million in the six months ended June 30, 2009 and 2008, respectively.

The following table presents net revenue from each of our major target markets and its respective contribution to net revenue in the three months ended June 30, 2009 as compared to the three months ended March 31, 2009:

	Three Months Ended June 30, 2009		Three Months Ended March 31, 2009		Increase (Decrease)	% Change in Amount
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Broadband communications	\$ 363,843	35.0%	\$317,254	37.2%	\$ 46,589	14.7%
Mobile and wireless	465,748	44.8	317,831	37.2	147,917	46.5
Enterprise networking	210,353	20.2	218,351	25.6	(7,998)	(3.7)
Net revenue	<u>\$1,039,944</u>	<u>100.0%</u>	<u>\$853,436</u>	<u>100.0%</u>	<u>\$186,508</u>	21.9

The increase in net revenue in our broadband communications and mobile and wireless target market resulted primarily from a broad-based increase in demand for our related products. Also reflected in our mobile and wireless target market was an increase in licensing revenue of \$48.4 million, primarily as a result of the Qualcomm Agreement. The decrease in net revenue from our enterprise networking target market resulted primarily from reduced demand for our Ethernet switch and controller products.

*Cost of Product Revenue, Product Gross Margin and Total Gross Margin.* Cost of product revenue comprises the cost of our semiconductor devices, which consists of the cost of purchasing finished silicon wafers manufactured by independent foundries, costs associated with our purchase of assembly, test and quality assurance services and packaging materials for semiconductor products, as well as royalties paid to vendors for use of their technology. Also included in cost of product revenue is the amortization of purchased technology, and manufacturing overhead, including costs of personnel and equipment associated with manufacturing support, product warranty costs, provisions for excess and obsolete inventories, and stock-based compensation expense for personnel engaged in manufacturing support. Product gross margin is product revenue less cost of product revenue divided by product revenue and does not include licensing revenue of intellectual property. Total gross margin is total net revenue less cost of product revenue divided by total net revenue.

Product gross margin decreased from 52.3% in the three months ended June 30, 2008 to 46.3% in the three months ended June 30, 2009 as a result of fixed costs being spread over a lower revenue base. Other factors that contributed to the decrease in product gross margin were: (i) a net decrease in the reversal of rebates of \$6.5 million related to unclaimed rebates, (ii) an increase in excess and obsolete inventory provisions of \$10.0 million and (iii) changes in product mix.

Product gross margin decreased from 51.9% in the six months ended June 30, 2008 to 46.2% in the six months ended June 30, 2009 as a result of fixed costs being spread over a lower revenue base. Other factors that contributed

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to the decrease in product gross margin were: (i) a net decrease in the reversal of rebates of \$18.9 million related to unclaimed rebates, (ii) an increase in excess and obsolete inventory provisions of \$18.5 million and (iii) changes in product mix.

Product gross margin increased from 46.1% in the three months ended March 31, 2009 to 46.3% in the three months ended June 30, 2009 as a result of fixed costs being spread over a higher revenue base and changes in product mix.

Product gross margin has been and will likely continue to be impacted by our product mix and volume of product sales, including sales to high volume customers, competitive pricing programs and rebates, fluctuations in silicon wafer costs and assembly, packaging and testing costs, competitive pricing requirements, product warranty costs, provisions for excess and obsolete inventories, the position of our products in their respective life cycles, and the introduction of products with lower margins, among other factors. Typically our newly introduced products have lower gross margins until we commence volume production and launch lower cost revisions of such products enabling us to benefit from economies of scale and more efficient designs. Our product gross margin may also be impacted by additional stock-based compensation expense and changes therein, as discussed below, and the amortization of purchased intangible assets related to future acquisitions.

### *Research and Development Expense*

Research and development expense consists primarily of salaries and related costs of employees engaged in research, design and development activities, including stock-based compensation expense. Development and design costs consist primarily of costs related to engineering design tools, mask and prototyping costs, testing and subcontracting costs. In addition, we incur other costs related to facilities and equipment expense, among other items.

The following tables present details of research and development expense for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008		Increase (Decrease)	% Change in Amount
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Salaries and benefits	\$188,497	18.1%	\$183,744	15.3%	\$ 4,753	2.6%
Stock-based compensation <sup>(1)</sup>	86,607	8.3	90,003	7.5	(3,396)	(3.8)
Development and design costs	48,331	4.6	54,444	4.5	(6,113)	(11.2)
Other	51,335	5.0	51,844	4.3	(509)	(1.0)
Research and development	<u>\$374,770</u>	<u>36.0%</u>	<u>\$380,035</u>	<u>31.6%</u>	<u>\$ (5,265)</u>	<u>(1.4)%</u>

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	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008		Increase (Decrease)	% Change in Amount
	Amount	% of Net Revenue	Amount (In thousands, except percentages)	% of Net Revenue		
Salaries and benefits	\$378,164	20.0%	\$350,437	15.7%	\$ 27,727	7.9%
Stock-based compensation <sup>(1)</sup>	175,869	9.3	168,709	7.6	7,160	4.2
Development and design costs	93,948	5.0	114,907	5.1	(20,959)	(18.2)
Other	99,513	5.2	101,670	4.5	(2,157)	(2.1)
Research and development	<u>\$747,494</u>	<u>39.5%</u>	<u>\$735,723</u>	<u>32.9%</u>	<u>\$ 11,771</u>	<u>1.6%</u>

(1) Includes stock-based compensation expense resulting from stock options, stock purchase rights and restricted stock units we issued or assumed in acquisitions. For a further discussion of stock-based compensation expense, see the section entitled “Stock-Based Compensation Expense” below.

The increase in salaries and benefits is primarily attributable to an increase in headcount by 449 personnel (predominantly in the broadband communications area as a result of our acquisition of the DTV Business of AMD, Inc.) to 5,378 at June 30, 2009, which represents a 9.1% increase from our June 30, 2008 levels. Salaries and benefits also increased as a result of the full impact of our annual merit review program in May 2008, offset in part by the impact of our restructuring plan in January 2009. We did not have an annual salary merit increase in 2009. In the three and six months ended June 30, 2009 development and design costs decreased due to reduced prototyping costs, license fees and subcontracting costs. Development and design costs vary from period to period depending on the timing of development and tape-out of various products.

We remain committed to significant research and development efforts to extend our technology leadership in the wired and wireless communications markets in which we operate. We currently hold more than 3,450 U.S. and 1,350 foreign patents, and maintain an active program of filing for and acquiring additional U.S. and foreign patents in wired and wireless communications and other fields.

### *Selling, General and Administrative Expense*

Selling, general and administrative expense consists primarily of personnel-related expenses, including stock-based compensation expense, legal and other professional fees, facilities expenses and communications expenses.

The following tables present details of selling, general and administrative expense for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008		Decrease	% Change in Amount
	Amount	% of Net Revenue	Amount (In thousands, except percentages)	% of Net Revenue		
Salaries and benefits	\$ 45,161	4.3%	\$ 50,306	4.2%	\$ (5,145)	(10.2)%
Stock-based compensation <sup>(1)</sup>	29,893	2.9	31,268	2.6	(1,375)	(4.4)
Legal and accounting fees	39,772	3.8	40,170	3.3	(398)	(1.0)
Other	12,584	1.3	20,273	1.7	(7,689)	(37.9)
Selling, general and administrative	<u>\$127,410</u>	<u>12.3%</u>	<u>\$142,017</u>	<u>11.8%</u>	<u>\$(14,607)</u>	<u>(10.3)%</u>

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	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008		Increase (Decrease)	% Change in Amount
	Amount	% of Net Revenue	Amount (In thousands, except percentages)	% of Net Revenue		
Salaries and benefits	\$ 91,155	4.8%	\$ 97,803	4.4%	\$ (6,648)	(6.8)%
Stock-based compensation <sup>(1)</sup>	58,527	3.1	60,333	2.7	(1,806)	(3.0)
Legal and accounting fees	74,126	3.9	56,165	2.5	17,961	32.0
Other	28,650	1.5	39,662	1.8	(11,012)	(27.8)
Selling, general and administrative	<u>\$252,458</u>	<u>13.3%</u>	<u>\$253,963</u>	<u>11.4%</u>	<u>\$ (1,505)</u>	<u>(0.6)%</u>

(1) Includes stock-based compensation expense resulting from stock options, stock purchase rights and restricted stock units we issued or assumed in acquisitions. For a further discussion of stock-based compensation expense, see the section entitled “Stock-Based Compensation Expense” below.

The decrease in salaries and benefits is primarily attributable to decreases in costs relating to the impact of our restructuring plan in January 2009 and recruiting and training costs. We did not have an annual salary merit increase in 2009. Employees engaged in selling, general and administrative activities increased by 41 to 1,303 as compared to our headcount at June 30, 2008. The increase in legal fees in the six months ended June 30, 2009 resulted primarily from attorneys’ fees and expenses related to our outstanding intellectual property and securities litigation as well as our abandoned acquisition of Emulex Corporation, or Emulex. Legal fees fluctuate from period to period due to the nature, scope, timing and costs of the matters in litigation from time to time. See Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements. The decrease in the three and six months ended June 30, 2009 in the *Other* line item included in the above tables is primarily attributable to a reduction in travel, facilities and communication expenses.

We have obligations to indemnify certain of our present and former directors, officers and employees to the maximum extent not prohibited by law. Under these obligations, Broadcom is required (subject to certain exceptions) to indemnify each such director, officer and employee against expenses, including attorneys’ fees, judgments, fines and settlements, paid by such individual in connection with our currently outstanding securities litigation and related government investigations described in Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements. The potential amount of the future payments we could be required to make under these indemnification obligations could be significant. We maintain directors’ and officers’ insurance policies that may limit our exposure and enable us to recover a portion of the amounts paid with respect to such obligations. However, certain of our insurance carriers have reserved their rights under their respective policies, and in the third quarter of 2008 one of our insurance carriers notified us that coverage was not available and that it intended to suspend payment to us. As a result, we ceased receiving reimbursements under these policies for our expenses related to the matters described above. However, in January 2009 we entered into an agreement with that insurance carrier and certain of our other insurance carriers pursuant to which, without prejudicing our rights or the rights of such insurers, we have received payments from these insurers under these insurance policies. We recognize reimbursements from our directors’ and officers’ insurance carriers on a cash basis, pursuant to which we record a reduction of selling, general and administrative expense only when cash is received from our insurance carriers. In the three and six months ended June 30, 2009, we recovered legal expenses of \$5.0 million and \$16.6 million, respectively, under these insurance policies. From inception of the securities litigation and related government investigations through June 30, 2009, we have recovered legal expenses of \$43.3 million under these insurance policies. These amounts have been recorded as a reduction of selling, general and administrative expense. In certain limited circumstances, all or portions of the amounts recovered from our insurance carriers may be required to be repaid. We regularly evaluate the need to record a liability for potential future repayments in accordance with SFAS No. 5, *Accounting for Contingencies*. As of June 30, 2009 we have not recorded a liability in connection with these potential insurance repayment provisions. In connection with our currently outstanding securities litigation and related government investigations described in Note 9, as of June 30, 2009, we had advanced \$57.9 million to certain former officers for attorney and expert fees for which we did not receive reimbursement from our insurance carriers, which amount has been expensed. If our coverage under these policies is reduced or eliminated, our potential financial exposure in the pending securities litigation and related government investigations would be increased. Our business, financial position and results of operations may be materially and adversely affected to the extent that our insurance coverage fails to pay or reimburse expenses and any judgments, fines or settlement costs that we may incur in connection with the related actions.

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For further discussion of litigation matters, see Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements.

### Stock-Based Compensation Expense

The following table presents details of total stock-based compensation expense that is *included* in each functional line item in our unaudited condensed consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Cost of product revenue	\$ 6,128	\$ 6,237	\$ 12,005	\$ 11,702
Research and development	86,607	90,003	175,869	168,709
Selling, general and administrative	29,893	31,268	58,527	60,333
	<u>\$122,628</u>	<u>\$127,508</u>	<u>\$246,401</u>	<u>\$240,744</u>

The following table presents details of unearned stock-based compensation currently estimated to be expensed in the remainder of 2009 through 2013 related to unvested share-based payment awards:

	2009	2010	2011	2012	2013	Total
	(In thousands)					
Unearned stock-based compensation	\$254,919	\$387,174	\$255,311	\$123,342	\$24,896	\$1,045,642

The increase in unearned stock-based compensation of \$28.4 million at June 30, 2009 from the \$1.017 billion balance at December 31, 2008 was primarily the result of our regular annual employee review program, offset by stock-based compensation of \$246.4 million expensed in the six months ended June 30, 2009, as well as the headcount reductions resulting from our restructuring plan. See Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements for a discussion of activity related to share-based awards.

We recognize stock-based compensation expense related to share-based awards over their respective service periods. Unearned stock-based compensation is principally amortized ratably over the service periods of the underlying stock options and restricted stock units, generally 48 months and 16 quarters, respectively. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees or assume unvested equity awards in connection with acquisitions.

### Amortization of Purchased Intangible Assets

The following table presents details of the amortization of purchased intangible assets *included* in the cost of product revenue and other operating expense categories:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Cost of product revenue	\$ 4,112	\$ 3,934	\$ 8,225	\$ 7,869
Other operating expenses	4,139	184	8,298	367
	<u>\$ 8,251</u>	<u>\$ 4,118</u>	<u>\$ 16,523</u>	<u>\$ 8,236</u>

The following table presents details of estimated future straight-line amortization of existing purchased intangible assets. If we acquire additional purchased intangible assets in the future, our cost of product revenue or operating expenses will be increased by the amortization of those assets. The increase in amortization of purchased

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intangibles in the three and six months ended June 30, 2009 as compared to the three and six months ended June 30, 2008 relates primarily to the acquired purchased intangible assets of the DTV Business of AMD.

	Purchased Intangible Assets Amortization by Year					Total
	2009	2010	2011	2012	Thereafter	
	(In thousands)					
Cost of product revenue	\$ 7,750	\$ 13,239	\$ 1,380	\$ —	\$ —	\$ 22,369
Other operating expenses	4,052	6,920	500	333	—	11,805
	<u>\$ 11,802</u>	<u>\$ 20,159</u>	<u>\$ 1,880</u>	<u>\$ 333</u>	<u>\$ —</u>	<u>\$ 34,174</u>

### ***In-Process Research and Development***

In the six months ended June 30, 2008 we recorded IPR&D of \$10.9 million related to our acquisition of Sunext Design, Inc. The amount allocated to IPR&D was determined through established valuation techniques used in the high technology industry and was expensed upon acquisition as it was determined that the underlying projects had not reached technological feasibility and no alternative future uses existed.

### ***Impairment of Long-Lived Assets***

In the three and six months ended June 30, 2009 we recorded an impairment to customer relationships of \$11.3 million related to the acquisition of the DTV Business of AMD in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The primary factor contributing to this impairment charge was the reduction in the revenue outlook from an acquired customer.

### ***Restructuring Costs (Reversals)***

In light of the deterioration in worldwide economic conditions, in January 2009 we began implementing a restructuring plan. The plan included a reduction in our worldwide headcount of approximately 200 people, which represented approximately 3% of our global workforce.

We recorded \$0.4 million and \$7.6 million in net restructuring costs in the three and six months ended June 30, 2009, respectively, related to the plan, primarily for severance and other charges associated with our reduction in workforce across multiple locations and functions and to a lesser extent the closure of one of our facilities. Of the total restructuring costs, \$2.7 million related to stock-based compensation expense incurred in connection with the modification of certain share-based awards. We anticipate a cost savings of approximately \$21.0 million in 2009, of which \$8.0 million relates to the cancellation of share-based awards from this restructuring plan.

### ***Settlement Costs (Gains)***

We recorded settlement gains of \$65.3 million related to the Qualcomm Agreement in the three months ended June 30, 2009. For a further discussion of this agreement, see “*Settlement and Patent License and Non-Assert Agreement*” in the Overview section. We also recorded \$6.9 million in settlement costs in the three months ended June 30, 2009 for an estimated settlement associated with certain employment tax items. In addition in the six months ended June 30, 2009 we recorded settlement costs of \$1.2 million related to a patent infringement claim.

In April 2008 we entered into a settlement with the SEC relating to the previously-disclosed SEC investigation of Broadcom’s historical stock option granting practices. Without admitting or denying the SEC’s allegations, we agreed to pay a civil penalty of \$12.0 million, which we recorded as a settlement cost in 2008. The settlement was approved by the United States District Court for the Central District of California in late April 2008. In addition, we settled a patent infringement claim for \$3.8 million in 2008. Both of the 2008 settlements were recorded in the six months ended June 30, 2008.

For further discussion of income tax and litigation matters, see Notes 5 and 9, respectively, to the Unaudited Condensed Consolidated Financial Statements.

**Charitable Contribution**

In April 2009 we established the Broadcom Foundation, or the Foundation, to support mathematics and science programs, as well as a broad range of community services. In June 2009 we pledged to make an unrestricted grant of \$50.0 million to the Foundation upon receiving a determination letter from the Internal Revenue Service of exemption from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, as the receipt of the determination letter is deemed probable, we recorded an operating expense for this contribution of \$50.0 million in the three and six months ended June 30, 2009.

**Interest and Other Income (Expense), Net**

The following tables present interest and other income (expense), net, for the three and six months ended June 30, 2009 and 2008:

	<b>Three Months Ended June 30, 2009</b>		<b>Three Months Ended June 30, 2008</b>		<b>Increase (Decrease)</b>	<b>% Change in Amount</b>
	<b>Amount</b>	<b>% of Net Revenue</b>	<b>Amount</b>	<b>% of Net Revenue</b>		
Interest income, net	\$3,986	0.4%	\$12,428	1.0%	\$(8,442)	(67.9)%
Other income (expense), net	1,019	0.1	(191)	—	1,210	(633.5)
	<b>(In thousands, except percentages)</b>					
	<b>Six Months Ended June 30, 2009</b>		<b>Six Months Ended June 30, 2008</b>		<b>Increase (Decrease)</b>	<b>% Change in Amount</b>
	<b>Amount</b>	<b>% of Net Revenue</b>	<b>Amount</b>	<b>% of Net Revenue</b>		
Interest income, net	\$8,384	0.5%	\$32,532	1.5%	\$(24,148)	(74.2)%
Other income, net	2,665	0.1	733	—	1,932	263.6

Interest income, net, reflects interest earned on cash and cash equivalents and marketable securities balances. Other income (expense), net primarily includes the gain on the sale of a marketable security and gains and losses on foreign currency transactions. The decrease in interest income, net, was the result of the overall decrease in market interest rates. Our cash and marketable securities balances increased from \$2.040 billion at June 30, 2008 to \$2.300 billion at June 30, 2009, primarily due to net cash provided by operating activities, including the \$200.0 million received from the Qualcomm Agreement. The average interest rates earned in the three months ended June 30, 2009 and 2008 were 0.73% and 2.33%, respectively. The average interest rates earned in the six months ended June 30, 2009 and 2008 were 0.81% and 2.93%, respectively.

**Income Tax Provision (Benefit)**

We recorded a tax provision of \$3.3 million and a tax benefit of \$1.8 million for the three and six months ended June 30, 2009, respectively, and tax provisions of \$0.6 million and \$3.9 million for the three and six months ended June 30, 2008, respectively. Our effective tax rates were 19.5% and 2.2% for the three and six months ended June 30, 2009, respectively, and 0.5% and 1.8% for the three and six months ended June 30, 2008, respectively. The difference between our effective tax rates and the 35% federal statutory rate resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate for the three and six months ended June 30, 2009 and June 30, 2008, domestic losses recorded without income tax benefit for the three and six months ended June 30, 2009, and tax benefits resulting primarily from the expiration of the statutes of limitations for the assessment of taxes in various foreign jurisdictions of \$5.5 million and \$6.5 million for the three and six months ended June 30, 2009, respectively, and \$4.4 million for the three and six months ended June 30, 2008. We recorded a tax benefit of \$3.9 million in the six months ended June 30, 2009 reflecting the utilization of a portion of our credits for increasing

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research activities (research and development tax credits) pursuant to a provision contained in the *American Recovery and Reinvestment Tax Act of 2009*, which was enacted in February 2009. Additionally, for the three and six months ended June 30, 2009, we recorded a tax provision of \$3.2 million associated with the exposure resulting from a recent decision by the U. S. Court of Appeals for the Ninth Circuit in the case involving Xilinx, Inc. as discussed below.

On May 27, 2009, the U.S. Court of Appeals for the Ninth Circuit in the case between Xilinx, Inc. and the Commissioner of Internal Revenue, overturned a 2005 U.S. Tax Court ruling regarding treatment of certain compensation expenses under a Company's research and development cost-sharing arrangements with affiliates. The Court of Appeals held that related parties to such an arrangement must share stock-based compensation expenses, notwithstanding the fact that unrelated parties in such an arrangement would not share such costs. The case is subject to further appeal. The potential impact to Broadcom, should the IRS prevail, of including such stock-based compensation expenses in our research and development cost-sharing arrangements would be additional income for federal and state purposes from January 1, 2001 forward, and may result in additional related federal and state income and franchise taxes, and material adjustments to our federal and state net operating loss carryforwards, our federal and state capitalized research and development costs and our deferred tax positions. Specifically, in the three and six months ended June 30, 2009, we recorded a \$3.2 million tax provision for additional federal and state income and franchise taxes. We also reduced our federal and state net operating loss carryforwards by approximately \$600.0 million and \$380.0 million, respectively, and reduced our federal and state capitalized research and development costs by approximately \$10.0 million and \$15.0 million, respectively. Additionally, in the three and six months ended June 30, 2009, we reduced our deferred tax asset relating to stock-based compensation expenses by approximately \$60.0 million, and increased our deferred tax asset for certain tax credits by approximately \$10.0 million, with each of these amounts offset by a corresponding adjustment to valuation allowance for deferred tax asset resulting in no net change to deferred tax assets.

As a result of SFAS 123R, since January 1, 2006, our deferred tax assets exclude excess tax benefits from employee stock-based compensation that are a component of our research and development credits, capitalized research and development, and net operating loss carryovers. If and when these tax benefits are realized, a credit is recorded to equity. The federal and state net operating losses and the capitalized research and development costs we reduced as a result of the decision in the Xilinx case represent such excess tax benefits from employee stock-based compensation and therefore do not result in an adjustment to our deferred tax assets.

We utilize the asset and liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes*, or SFAS 109. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. SFAS 109 states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of our recent cumulative losses in the U.S. and certain foreign jurisdictions, and the full utilization of our loss carryback opportunities, we have concluded that a full valuation allowance should be recorded in such jurisdictions. In certain other foreign jurisdictions where we do not have cumulative losses, we had net deferred tax assets of \$7.6 million and \$7.5 million at June 30, 2009 and December 31, 2008, respectively, in accordance with SFAS 109.

We file federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2004 through 2008 tax years generally remain subject to examination by federal and most state tax authorities. In foreign jurisdictions, the 2001 through 2008 tax years generally remain subject to examination by tax authorities.

Our income tax returns for the 2004, 2005 and 2006 tax years are currently under examination by the Internal Revenue Service and certain state jurisdictions. In addition, our employment tax returns for the 2003, 2004, 2005 and 2006 tax years are under examination by the Internal Revenue Service. We currently do not expect that the results of these examinations will have a material effect on our financial condition or results of operations.

We operate under tax holidays in Singapore, which are effective through March 31, 2014. The tax holidays are conditional upon our continued compliance in meeting certain employment and investment thresholds.

***Subsequent Events***

On April 21, 2009 we announced that we had sent an unsolicited proposal to the Board of Directors of Emulex to acquire all of the outstanding shares of Emulex common stock for \$9.25 per share in cash or a total of approximately \$764.0 million. On June 29, 2009 we increased our offer for all of the currently outstanding shares of common stock (including the associated preferred stock purchase rights) of Emulex from \$9.25 to \$11.00 per share in cash, representing a total equity value of approximately \$912.0 million. Our offer to acquire all of the outstanding shares of Emulex expired at midnight, July 14, 2009. At the expiration of the offer, certain conditions to the offer had not been met, and we had not waived those conditions. Therefore, no shares were purchased by us in the offer, and all shares previously tendered and not withdrawn were promptly returned.

In accordance with SFAS 165, we have evaluated subsequent events through July 23, 2009, the date of issuance of the unaudited condensed consolidated financial statements. During this period we did not have any material recognizable subsequent events. However, we did have a nonrecognizable subsequent event related to the expiration of our offer to acquire all of the outstanding shares of Emulex.

**Liquidity and Capital Resources**

*Working Capital and Cash and Marketable Securities.* The following table presents working capital, cash and cash equivalents and marketable securities:

	<u>June 30 2009</u>	<u>December 31, 2008</u>	<u>Increase (Decrease)</u>
Working capital	\$2,125,982	\$ 2,034,110	\$ 91,872
Cash and cash equivalents <sup>(1)</sup>	\$1,506,518	\$ 1,190,645	\$315,873
Short-term marketable securities <sup>(1)</sup>	700,585	707,477	(6,892)
Long-term marketable securities	92,699	—	92,699
	<u>\$2,299,802</u>	<u>\$ 1,898,122</u>	<u>\$401,680</u>

(1) Included in working capital.

Our working capital, cash and cash equivalents and marketable securities increased in the six months ended June 30, 2009 primarily due to cash provided by operations. See the summary of cash, cash equivalents and short-term marketable securities by major security type and discussion of market risk that follows in Item 3: *Quantitative and Qualitative Disclosures about Market Risk*.

*Cash Provided and Used in the Six Months Ended June 30, 2009 and 2008.* Cash and cash equivalents increased to \$1.507 billion at June 30, 2009 from \$1.191 billion at December 31, 2008 as a result of cash provided by operating activities.

	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
	(In thousands)	
Cash provided by operating activities	\$ 418,501	\$ 487,228
Cash used in investing activities	(113,360)	(197,083)
Cash provided by (used in) financing activities	10,732	(771,002)
Net increase (decrease) in cash and cash equivalents	\$ 315,873	\$ (480,857)
Cash and cash equivalents at beginning of period	<u>\$1,190,645</u>	<u>\$2,186,572</u>
Cash and cash equivalents at end of period	<u>\$1,506,518</u>	<u>\$1,705,715</u>

In the six months ended June 30, 2009 our operating activities provided \$418.5 million in cash. This was primarily the result of \$311.8 million in net non-cash operating expenses, \$185.2 million in net cash provided by

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changes in operating assets and liabilities (including the effects of the proceeds received from the Qualcomm Agreement) offset in part by a net loss of \$78.5 million. Non-cash items included in net income in the six months ended June 30, 2009 consisted of depreciation and amortization, stock-based compensation expense, amortization of purchased intangible assets, impairment of long-lived assets, non-cash restructuring charges and a gain on sale of marketable securities. In the six months ended June 30, 2008 our operating activities provided \$487.2 million in cash. This was primarily the result of \$209.1 million in net income and \$300.0 million in net non-cash operating expenses, offset in part by \$21.8 million in net cash used by changes in operating assets and liabilities. Non-cash items included in net income in the six months ended June 30, 2008 included depreciation and amortization, stock-based compensation expense, amortization of purchased intangible assets, IPR&D, impairment of long-lived assets and loss on strategic investments.

Accounts receivable increased \$71.7 million from \$372.3 million at December 31, 2008 to \$444.0 million at June 30, 2009 resulting primarily from a change in our revenue linearity. Our days sales outstanding increased from 30 days at December 31, 2008 to 39 days at June 30, 2009, driven by a variation in revenue linearity and a slight delay in the timing of customer payments. We typically bill customers on an open account basis subject to our standard net thirty day payment terms. If, in the longer term, our revenue increases, it is likely that our accounts receivable balance will also increase. Our accounts receivable could also increase if customers delay their payments or if we grant extended payment terms to customers, both of which are more likely to occur during challenging economic times when our customers may face issues gaining access to sufficient credit on a timely basis. As of June 30, 2009 we have not extended payment terms to any of our customers.

Inventories decreased \$86.8 million from \$366.1 million at December 31, 2008 to \$279.3 million at June 30, 2009 as we reduced our inventory purchases to reflect the reduction in revenues and the current economic slowdown. Our inventory days on hand decreased from 60 days at December 31, 2008 to 49 days at June 30, 2009 which was in line with our established objective of reducing inventory from the December 31, 2008 level. In the future, our inventory levels will continue to be determined based upon the level of purchase orders we receive and the stage at which our products are in their respective product life cycles, our ability, and the ability of our customers, to manage inventory under hubbing arrangements, and competitive situations in the marketplace. Such considerations are balanced against the risk of obsolescence or potentially excess inventory levels.

Investing activities used \$113.4 million in cash in the six months ended June 30, 2009, which was primarily the result of net purchases of marketable securities of \$89.2 million and \$26.3 million of capital equipment purchases mostly to support our research and development efforts. Investing activities used cash of \$197.1 million in the six months ended June 30, 2008, which was primarily the result of net purchases of marketable securities of \$117.9 million, \$49.1 million of capital equipment purchases, mostly to support our research and development efforts, \$9.6 million in net cash paid for the acquisition of Sunext Design, \$20.1 million related to contingent consideration paid for attainment of certain performance goals, and the purchase of \$0.4 million of strategic investments.

Our financing activities provided \$10.7 million in cash in the six months ended June 30, 2009, which was primarily the result of \$83.7 million in proceeds received from issuances of common stock upon exercise of stock options and pursuant to our employee stock purchase plan, offset in part by \$38.4 million in repurchases of shares of our Class A common stock pursuant to the share repurchase program implemented in July 2008 and \$34.5 million in minimum tax withholding paid on behalf of employees for shares issued pursuant to restricted stock units. An additional \$12.5 million of repurchases of our Class A common stock was not settled in cash as of June 30, 2009. Our financing activities used \$771.0 million in cash in the six months ended June 30, 2008, which was primarily the result of \$835.9 million in repurchases of shares of our Class A common stock pursuant to the share repurchase program implemented in November 2007, offset in part by \$64.9 million in net proceeds received from issuances of common stock upon exercise of stock options and pursuant to our employee stock purchase plan. An additional \$21.6 million of repurchases of our Class A common stock was not settled in cash as of June 30, 2008.

From time to time our Board of Directors has authorized various programs to repurchase shares of our Class A common stock depending on market conditions and other factors. In July 2008 the Board of Directors authorized our current program to repurchase shares of Broadcom's Class A common stock having an aggregate value of up to \$1.0 billion. Repurchases under the program may be made at any time during the period that commenced July 31, 2008 and continuing through and including July 31, 2011. In the three months ended June 30, 2009 we repurchased a total of 2.0 million shares of our Class A common stock at a weighted average price of \$25.08. At June 30, 2009, \$524.9 million remained authorized for the repurchase of shares under this plan.

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Although we received similar proceeds from issuances of common stock upon exercise of stock options and pursuant to our employee stock purchase plan in the six months ended June 30, 2009 and 2008, the timing and number of stock option exercises and employee stock purchases and the amount of cash proceeds we receive through those exercises and purchases are not within our control, and in the future we may not generate as much cash from the exercise of stock options as we have in the past. Moreover, it is now our practice to issue a combination of restricted stock units and stock options only to certain employees and, in most cases to issue solely restricted stock units. Unlike the exercise of stock options, the issuance of shares upon vesting of restricted stock units does not result in any cash proceeds to Broadcom and requires the use of cash, as we currently allow employees to elect to have a portion of the shares issued upon vesting of restricted stock units withheld to satisfy minimum statutory withholding taxes, which we then pay in cash to the appropriate tax authorities on each participating employee's behalf.

*Prospective Capital Needs.* We believe that our existing cash, cash equivalents and marketable securities, together with cash generated from operations and from the purchase of common stock through our employee stock purchase plan, will be sufficient to cover our working capital needs, capital expenditures, investment requirements, commitments and repurchases of our Class A common stock for at least the next 12 months. However, it is possible that we may need to raise additional funds to finance our activities beyond the next 12 months or to consummate acquisitions of other businesses, assets, products or technologies. If needed, we may be able to raise such funds by selling equity or debt securities to the public or to selected investors, or by borrowing money from financial institutions. We could also reduce certain expenditures, such as repurchases of our Class A common stock.

In addition, even though we may not need additional funds, we may still elect to sell additional equity or debt securities or obtain credit facilities for other reasons. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of our Class A common stock.

Although we believe that we have sufficient capital to fund our activities for at least the next 12 months, our future capital requirements may vary materially from those now planned. We anticipate that the amount of capital we will need in the future will depend on many factors, including:

- general economic and political conditions and specific conditions in the markets we address, including the continuing volatility in the technology sector and semiconductor industry, the current global economic recession, trends in the broadband communications markets in various geographic regions, including seasonality in sales of consumer products into which our products are incorporated;
- the inability of certain of our customers who depend on credit to have access to their traditional sources of credit to finance the purchase of products from us, particularly in the current global economic environment, which may lead them to reduce their level of purchases or to seek credit or other accommodations from us;
- litigation expenses, settlements and judgments;
- the overall levels of sales of our semiconductor products, licensing revenue and product gross margins;
- our business, product, capital expenditure and research and development plans, and product and technology roadmaps;
- the market acceptance of our products;
- repurchases of our Class A common stock;
- required levels of research and development and other operating costs;

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- volume price discounts and customer rebates;
- intellectual property disputes, customer indemnification claims and other types of litigation risks;
- the levels of inventory and accounts receivable that we maintain;
- acquisitions of other businesses, assets, products or technologies;
- licensing royalties payable by or to us;
- changes in our compensation policies;
- the issuance of restricted stock units and the related cash payments we make for withholding taxes due from employees during 2009 and future years;
- capital improvements for new and existing facilities;
- technological advances;
- our competitors' responses to our products and our anticipation of and responses to their products;
- our relationships with suppliers and customers;
- the availability and cost of sufficient foundry, assembly and test capacity and packaging materials; and
- the level of exercises of stock options and stock purchases under our employee stock purchase plan.

In addition, we may require additional capital to accommodate planned future long-term growth, hiring, infrastructure and facility needs.

*Off-Balance Sheet Arrangements.* At June 30, 2009 we had no material off-balance sheet arrangements, other than our operating leases.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Risk**

At June 30, 2009 we had \$2.300 billion in cash, cash equivalents and marketable securities. We maintain an investment portfolio of various security holdings, types and maturities. Pursuant to SFAS No. 157, *Fair Value Measurements*, or SFAS 157, the fair value of all of our cash equivalents and marketable securities is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. We place our cash investments in instruments that meet credit quality standards, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. At June 30, 2009 all of our marketable securities are rated AAA, Aaa, A+, A-1 or P-1 by the major credit rating agencies. We invest in U.S. Treasury and agency obligations, commercial paper, money market funds, corporate notes and bonds, time deposits, foreign notes and certificates of deposits. Our investment policy for marketable securities requires that all securities mature in three years or less, with a weighted average maturity of no longer than 18 months.

We account for our investments in debt and equity instruments under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and FASB Staff Position, or FSP, SFAS No. 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, as amended by FSP 115-2 and 124-2, or FSP 115-1 and 124-1*. Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. Cash equivalents and marketable securities are classified as available-for-sale and are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of shareholders' equity, net of tax.

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We follow the guidance provided by FSP 115-1 and 124-1 to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net, in the unaudited condensed consolidated statements of operations. The fair value of cash equivalents and marketable securities is determined based on quoted market prices for those securities. In 2008 we recorded an other-than-temporary impairment of a marketable security of \$1.8 million as other expense, net. In the six months ended June 30, 2009 this marketable security was sold resulting in the recovery of \$1.0 million of the originally recorded impairment.

Investments in both fixed rate and floating rate instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to an increase in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. However, because any debt securities we hold are classified as “available-for-sale,” no gains or losses are realized in the income statement due to changes in interest rates unless such securities are sold prior to maturity or unless declines in value are determined to be other-than-temporary. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of shareholders’ equity, net of tax.

In a declining interest rate environment, as short term investments mature, reinvestment occurs at less favorable market rates. Given the short term nature of certain investments, the current interest rate environment may continue to negatively impact our investment income.

To assess the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on investment positions as of June 30, 2009, a 100 basis point increase in interest rates across all maturities would result in a \$4.6 million incremental decline in the fair market value of the portfolio. As of December 31, 2008, a similar 100 basis point shift in the yield curve would have resulted in a \$3.1 million incremental decline in the fair market value of the portfolio. Such losses would only be realized if we sold the investments prior to maturity.

Actual future gains and losses associated with our investments may differ from the sensitivity analyses performed as of June 30, 2009 due to the inherent limitations associated with predicting the changes in the timing and level of interest rates and our actual exposures and positions.

Current economic conditions have had widespread negative effects on the financial markets. Due to credit concerns and lack of liquidity in the short-term funding markets, we have shifted a large percentage of the portfolio to U.S. Treasury and other government securities and time deposits, which may negatively impact our investment income, particularly in the form of declining yields.

Approximately \$608.5 million of our \$1.507 billion of cash and cash equivalents at June 30, 2009 is located in foreign countries where we conduct business. There may be tax effects upon repatriation of the cash to the United States.

### Exchange Rate Risk

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Currently, sales to customers and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, and, therefore, are not subject to exchange rate fluctuations. Increases in the value of the United States’ dollar relative to other currencies could make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States dollar relative to other currencies could result in our suppliers raising their prices to continue doing business with us. Fluctuations in currency exchange rates could affect our business in the future.

**Item 4. Controls and Procedures**

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures and implementing controls and procedures based on the application of management's judgment.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2009, the end of the period covered by this Report.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Inherent Limitations on Internal Control**

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of management override or improper acts, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to management override, error or improper acts may occur and not be detected. Any resulting misstatement or loss may have an adverse and material effect on our business, financial condition and results of operations.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The information set forth under Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see "Risk Factors" immediately below.

**Item 1A. Risk Factors**

*Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere and the other information contained in this Report and in our other filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2008 and subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Broadcom, our business, financial condition, results of operations*

*and/or liquidity could be seriously harmed. In that event, the market price for our Class A common stock will likely decline, and you may lose all or part of your investment.*

**Our operating results may be adversely impacted by worldwide political and economic uncertainties and specific conditions in the markets we address, including the cyclical nature of and volatility in the semiconductor industry. As a result, the market price of our Class A common stock may decline.**

We operate primarily in the semiconductor industry, which is cyclical and subject to rapid change and evolving industry standards. From time to time, the semiconductor industry has experienced significant downturns, such as the current downturn. These downturns are characterized by decreases in product demand, excess customer inventories, and accelerated erosion of prices. These factors could cause substantial fluctuations in our revenue, gross margins and results of operations. In addition, during these downturns some competitors may become more aggressive in their pricing practices, which would adversely impact our product gross margins. Any downturns in the semiconductor industry may be severe and prolonged, and any failure of the industry or wired and wireless communications markets to fully recover from downturns could seriously impact our revenue and harm our business, financial condition and results of operations. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship products. Accordingly, our operating results may vary significantly as a result of the general conditions in the semiconductor industry, which could cause large fluctuations in our stock price.

Our business is subject to variability due to the recent deterioration in general worldwide economic conditions and credit availability resulting from the current financial crisis affecting the banking system and financial markets. Many other factors have the potential to significantly impact our business, such as: concerns about inflation and deflation, volatility in energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in the wired and wireless communications markets, reduced availability of insurance coverage or reduced ability to pay claims by insurance carriers, recent international conflicts and terrorist and military activity, and the impact of natural disasters and public health emergencies. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to further slow spending on our products and services, which would delay and lengthen sales cycles. Furthermore, during challenging economic times our customers may face issues gaining timely access to sufficient credit or could even need to file for bankruptcy. Either of these circumstances could result in an impairment of their ability to make timely payments to us. If these circumstances were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would be negatively impacted. Historically, semiconductor companies are several steps removed from the end-customer in the supply chain and have experienced growth patterns which are different than what the end demand might be, particularly during periods of high volatility. This can manifest itself in periods of growth in excess of their customers' followed by periods of under-shipment before the volatility abates. However, given recent economic conditions it is possible that any correlation will continue to be less predictable and will result in increased volatility in our operating results and stock price. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, worldwide, in the semiconductor industry or in the wired and wireless communications markets. If the economy or markets in which we operate deviate from present levels or deteriorate, we may record additional charges related to restructuring costs and the impairment of goodwill and long-lived assets, and our business, financial condition and results of operations may be materially and adversely affected. Additionally, the combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could have a synergistic negative impact on the results of our operations. The impact of market volatility is not limited to revenue but may also affect our product gross margins and other financial metrics. Such impact could be manifested in, but not limited to, factors such as fixed cost overhead absorption.

**Our quarterly operating results may fluctuate significantly. As a result, we may fail to meet the expectations of securities analysts and investors, which could cause our stock price to decline.**

Our quarterly net revenue and operating results have fluctuated significantly in the past and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. If our operating results do not meet the expectations of securities analysts or investors, who may derive their expectations by extrapolating data from recent historical operating results, the market price of our Class A common stock will likely decline. Fluctuations in our operating results may be due to a number of factors, including, but not limited to, those

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listed below and those identified throughout this “Risk Factors” section, some of which may contribute to more pronounced fluctuations in an uncertain global economic environment:

- general economic and political conditions and specific conditions in the markets we address, including the continuing volatility in the technology sector and semiconductor industry, the current global economic recession, and trends in the broadband communications markets in various geographic regions, including seasonality in sales of consumer products into which our products are incorporated;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;
- our ability to adjust our operations in response to changes in demand for our existing products and services or demand for new products requested by our customers;
- the effectiveness of our expense and product cost control and reduction efforts;
- the gain or loss of a key customer, design win or order;
- our dependence on a few significant customers and/or design wins for a substantial portion of our revenue;
- our ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a cost-effective and timely manner;
- intellectual property disputes, customer indemnification claims and other types of litigation risks;
- the availability and pricing of raw materials and third party semiconductor foundry, assembly and test capacity;
- our ability to retain, recruit and hire key executives, technical personnel and other employees in the positions and numbers, with the experience and capabilities, and at the compensation levels that we need to implement our business and product plans;
- our ability to timely and accurately predict market requirements and evolving industry standards and to identify and capitalize upon opportunities in new markets;
- the rate at which our present and future customers and end users adopt our technologies and products in our target markets;
- changes in our product or customer mix;
- competitive pressures and other factors such as the qualification, availability and pricing of competing products and technologies and the resulting effects on sales and pricing of our products;
- our ability to timely and effectively transition to smaller geometry process technologies or achieve higher levels of design integration;
- the volume of our product sales and pricing concessions on volume sales;
- the impact of the Internal Revenue Service review of certain of our income and employment tax returns; and
- the effects of public health emergencies, natural disasters, terrorist activities, international conflicts and other events beyond our control.

We expect new product lines to account for a high percentage of our future sales. Some of these markets are immature and/or unpredictable or are new markets for Broadcom. We cannot assure you that these markets will develop into significant opportunities or that we will continue to derive significant revenue from these markets. Based on the limited amount of historical data available to us, it is difficult to anticipate our future revenue streams from, or the sustainability of, such newer markets. Typically our new products have lower gross margins until we commence volume production and launch lower cost revisions of such products, enabling us to benefit from economies of scale and more efficient designs. However, certain of our new products, such as products for the

cellular phone market, will likely have lower gross margins than our customary products for some time after we commence volume production of those products, which will be dependent upon our product mix.

Additionally, as an increasing number of our chips are being incorporated into consumer electronic products, we anticipate greater seasonality and fluctuations in the demand for our products, which may result in greater variations in our quarterly operating results. Consumer electronic products can also have lower gross margins than the gross margins we have been able to achieve in the past, depending upon where they are in their respective product life cycles, which could negatively impact our revenue and gross margin.

In the past we have entered into arrangements that include multiple deliverables, such as the sale of semiconductor products and related data services. Under these arrangements, the services may be provided without having a separate “fair value” under Financial Accounting Standards Board, or FASB, Emerging Issues Task Force, or EITF, Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, or EITF 00-21. In that event, we will only recognize a portion of the total revenue we receive from the customer during a quarter, and will recognize the remaining revenue ratably over the respective service period or estimated product life. There are also other scenarios under EITF 00-21 and other accounting literature whereby revenue may be deferred for even longer periods or ratable recognition over the service period may not be permitted and all of the revenue may be required to be recognized in later periods or at the end of the arrangement. As we enter into future multiple element arrangements in which the fair value of each deliverable is not known, the portion of revenue we recognize on a deferred basis may vary significantly in any given quarter, which could cause even greater fluctuations in our quarterly operating results.

**We are subject to order and shipment uncertainties, and our ability to accurately forecast customer demand may be impaired by our lengthy sales cycle. If we are unable to accurately predict customer demand, we may hold excess or obsolete inventory, which would reduce our product gross margin. Conversely, we may have insufficient inventory, which would result in lost revenue opportunities and potentially in loss of market share and damaged customer relationships.**

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Customers can generally cancel, change or defer purchase orders on short notice without incurring a significant penalty. In the recent past, some of our customers have developed excess inventories of their own products and have, as a consequence, deferred purchase orders for our products. It is difficult to accurately predict what or how many products our customers will need in the future. Anticipating demand is challenging because our customers face volatile pricing and unpredictable demand for their own products, are increasingly focused on cash preservation and tighter inventory management, and may be involved in legal proceedings that could affect their ability to buy our products.

Our ability to accurately forecast customer demand may also be impaired by the delays inherent in our lengthy sales cycle. After we have developed and delivered a product to a customer, the customer will usually test and evaluate our product prior to designing its own equipment that will incorporate our product. Our customers may need three to more than nine months to test, evaluate and adopt our product and an additional three to more than twelve months to begin volume production of equipment that incorporates our products. Due to this lengthy sales cycle, we may experience significant delays from the time we increase our operating expenses and make investments in inventory until the time that we generate revenue from these products. It is possible that we may never generate any revenue from these products after incurring such expenditures. Even if a customer selects our product to incorporate into its equipment, we have no assurance that the customer will ultimately bring its product to market or that such effort by our customer will be successful. The delays inherent in our lengthy sales cycle increase the risk that a customer will decide to cancel or curtail, reduce or delay its product plans. If we incur significant research and development expenses, marketing expenses and investments in inventory in the future that we are not able to recover, our operating results could be adversely affected. In addition, as an increasing number of our chips are being incorporated into consumer products, we anticipate greater fluctuations in demand for our products, which makes it even more difficult to forecast customer demand.

We place orders with our suppliers based on forecasts of customer demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. Our forecasts are based on multiple assumptions, each of which may introduce error into our estimates. If we overestimate customer demand, we may allocate resources to

manufacturing products that we may not be able to sell when we expect to, if at all. As a result, we could hold excess or obsolete inventory, which would reduce our profit margins and adversely affect our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we could forego revenue opportunities and potentially lose market share and damage our customer relationships. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect our profit margins, increase product obsolescence and restrict our ability to fund our operations. Furthermore, we generally recognize revenue upon shipment of products to a customer. If a customer refuses to accept shipped products or does not timely pay for these products, which has occurred in the past, our revenue and financial results could be materially and adversely impacted.

In addition, a growing percentage of our inventory is maintained under hubbing arrangements with certain of our customers and we plan to continue to use these arrangements for the foreseeable future. Pursuant to these arrangements, we deliver products to a customer or a designated third party warehouse based upon the customer's projected needs, but do not recognize product revenue unless and until the customer reports that it has removed our product from the warehouse to incorporate into its end products. Historically we have had good visibility into customer requirements and shipments within a quarter. However, if a customer does not take our products under a hubbing arrangement in accordance with the schedule it originally provided us, our predicted future revenue stream could vary substantially from our forecasts and our results of operations could be materially and adversely affected. In addition, distributors and/or customers with hubbing arrangements provide us periodic reports regarding product, price, quantity, and when products are shipped to their customers, as well as the quantities of our products they still have in stock. For specialized shipping terms we may also rely on data provided by our freight forwarding providers. For our royalty revenue we also rely on data provided by our customers. Any error in the data provided to us by customers, distributors or other third parties could lead to inaccurate reporting of our revenue, gross profit and net income. Additionally, since we own inventory that is physically located in a third party's warehouse, our ability to effectively manage inventory levels may be impaired, causing our total inventory turns to decrease, which could increase expenses associated with excess and obsolete product and negatively impact our cash flow.

**If we fail to appropriately adjust our operations in response to changes in demand for our existing products and services or to the demand for new products requested by our customers, our business could be materially and adversely affected.**

We intend to manage our costs and expenses in the short term to achieve our long-term business objectives. We anticipate that in the long term, we may need to expand as general worldwide economic conditions improve. Through internal growth and acquisitions, we significantly increased the scope of our operations and expanded our workforce from 2,774 full-time employees and temporary workers as of December 31, 2003 (excluding interns) to 7,200 full-time employees and temporary workers as of June 30, 2009 (excluding interns). Nonetheless, we may not be able to adjust our workforce and operations in a sufficiently timely manner to respond effectively to changes in demand for our existing products and services or to the demand for new products requested by our customers. In that event, we may be unable to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected.

Conversely, if we expand our operations and workforce too rapidly in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expect, our business could be materially and adversely affected. We expect new product lines, which often require substantial research and development expenses to develop, to account for a high percentage of our future revenue. However, some of the markets for these new products are immature and/or unpredictable or are new markets for Broadcom, and if these markets do not develop at the rates we originally anticipated or if we do not execute successfully, the rate of increase in our operating expenses may exceed the rate of increase, if any, in our revenue. Moreover, we may intentionally choose to increase the rate of our research and development expenses more rapidly than the increase in the rate of our revenue in the short term in anticipation of the long term benefits we would derive from such investment. However, such benefits may never materialize or may not be as significant as we originally believed they would be. For instance, during the last five years we have incurred substantial expenditures on the development of new products for the cellular handset market. Approximately 25% of the \$1.498 billion in research and development expense for 2008 was attributable to our mobile platforms business. However, this market is characterized by very long product development and sales cycles due to the significant qualification requirements of cellular handset makers and wireless network operators, and accordingly, it is common to experience significant delays from the time research and development efforts commence to the time corresponding revenues are generated. Due to these lengthy product

development and sales cycles, our mobile platforms business had a material negative impact on our earnings in 2008, including impairment charges of \$169.4 million recorded in the three months ended December 31, 2008 relating to this business. Most of the revenue that we derived from our mobile platforms business in the three and six months ended June 30, 2009 related to the licensing of our intellectual property. In connection with the Qualcomm Agreement, in the three months ended June 30, 2009, we recorded licensing revenue of \$36.7 million. We expect to record equal quarterly amounts of \$51.7 million from September 30, 2009 through March 31, 2012, \$47.7 million in the three months ending June 30, 2012 and \$43.2 million in following four quarters ending June 30, 2013 for cumulative licensing revenue in the amount of \$825.9 million. Although we have started to generate additional product revenue from our cellular handset products in the three months ended June 30, 2009, it is possible that our customers may delay further product development plans or that their products will not be commercially successful, which would continue to materially and adversely affect our results of operations.

Additionally, our operations are characterized by a high percentage of costs that are fixed or difficult to reduce in the short term, such as research and development expenses, the employment and training of a highly skilled workforce, stock-based compensation expense, and legal, accounting and other external fees. If we experience a slowdown in the semiconductor industry or the wired and wireless communications markets in which we operate, such as the current slowdown, we may not be able to adjust our operating expenses in a sufficiently timely or effective manner. Although we announced a restructuring plan in January 2009 and have implemented a number of other cost saving measures, if the current slowdown is more severe or prolonged than we anticipate, our business, financial condition and results of operations could be materially and adversely affected and may result in additional restructuring costs.

Our past growth has placed, and any future long-term growth is expected to continue to place, a significant strain on our management personnel, systems and resources. To implement our current business and product plans, we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort. In the past we have implemented an enterprise resource planning system to help us improve our planning and management processes, and implemented an equity administration system to support our more complex equity programs. We anticipate that we will also need to continue to implement a variety of new and upgraded operational and financial systems, including enhanced human resources management systems and a business-to-business solution, as well as additional procedures and other internal management systems. In general, the accuracy of information delivered by these systems may be subject to inherent programming quality. We may engage in relocations of our employees or operations from time to time. Such relocations could result in temporary disruptions of our operations or a diversion of management's attention and resources. If we are unable to effectively manage our expanding operations, we may be unable to adjust our business quickly enough to meet competitive challenges or exploit potential market opportunities, or conversely, we may scale our business too quickly and the rate of increase in our expenses may exceed the rate of increase in our revenue, either of which would materially and adversely affect our current or future business.

**If we are unable to develop and introduce new products successfully and in a cost-effective and timely manner or to achieve market acceptance of our new products, our operating results would be adversely affected.**

Our future success is dependent upon our ability to develop new semiconductor products for existing and new markets, introduce these products in a cost-effective and timely manner, and convince leading equipment manufacturers to select these products for design into their own new products. Our products are generally incorporated into our customers' products at the design stage. We often incur significant expenditures on the development of a new product without any assurance that an equipment manufacturer will select our product for design into its own product. Once an equipment manufacturer designs a competitor's product into its product offering, it becomes significantly more difficult for us to sell our products to that customer because changing suppliers involves significant cost, time, effort and risk for the customer.

Even if an equipment manufacturer designs one of our products into its product offering, we have no assurances that its product will be commercially successful or that we will receive any revenue from sales of that product. Sales of our products largely depend on the commercial success of our customers' products. Our customers are typically not obligated to purchase our products and can choose at any time to stop using our products if their own products are not commercially successful or for any other reason. In addition, any substantial delay in our customers' product development plans could have a material negative impact on our business.

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Our historical results have been, and we expect that our future results will continue to be, dependent on the introduction of a relatively small number of new products and the timely completion and delivery of those products to customers. The development of new silicon devices is highly complex, and from time to time we have experienced delays in completing the development and introduction of new products or lower than anticipated manufacturing yields in the early production of such products. If we were to experience any similar delays in the successful completion of a new product or similar reductions in our manufacturing yields for a new product in the future, our customer relationships, reputation and business could be seriously harmed.

In addition, the development and introduction of new products often requires substantial research and development resources. As a result, we may choose to discontinue one or more products or product development programs to dedicate more resources to new products. The discontinuation of an existing or planned product may materially and adversely affect our relationship with our customers, including customers who may purchase more than one product from us.

Our ability to develop and deliver new products successfully will depend on various factors, including our ability to:

- timely and accurately predict market requirements and evolving industry standards;
- accurately define new products;
- timely and effectively identify and capitalize upon opportunities in new markets;
- timely complete and introduce new product designs;
- adjust our operations in response to changes in demand for our products and services or the demand for new products requested by our customers;
- license any desired third party technology or intellectual property rights;
- effectively develop and integrate technologies from companies that we have acquired;
- timely qualify and obtain industry interoperability certification of our products and the products of our customers into which our products will be incorporated;
- obtain sufficient foundry capacity and packaging materials;
- achieve high manufacturing yields; and
- shift our products to smaller geometry process technologies to achieve lower cost and higher levels of design integration.

In some of our businesses, our ability to develop and deliver next generation products successfully and in a timely manner may depend in part on access to information, or licenses of technology or intellectual property rights, from companies that are our competitors. We cannot assure you that such information or licenses will be made available to us on a timely basis, if at all, or at reasonable cost and on commercially reasonable terms.

If we are not able to develop and introduce new products successfully and in a cost effective and timely manner, we will be unable to attract new customers or to retain our existing customers, as these customers may transition to other companies that can meet their product development needs, which would materially and adversely affect our results of operations.

**Our acquisition strategy may result in unanticipated accounting charges or otherwise adversely affect our results of operations, and result in difficulties in assimilating and integrating the operations, personnel,**

**technologies, products and information systems of acquired companies or businesses, or be dilutive to existing shareholders. In addition, completing and integrating acquisitions can be costly.**

A key element of our business strategy involves expansion through the acquisitions of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. Between January 1, 1999 and June 30, 2009, we acquired 38 companies and certain assets of four other businesses. We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the purchase or sale of assets, including tangible and intangible assets such as intellectual property.

Acquisitions may require significant capital infusions, typically entail many risks, and could result in difficulties in assimilating and integrating the operations, personnel, technologies, products and information systems of acquired companies or businesses. We have in the past and may in the future experience delays in the timing and successful integration of an acquired company's technologies and product development through volume production, unanticipated costs and expenditures, changing relationships with customers, suppliers and strategic partners, or contractual, intellectual property or employment issues. In addition, key personnel of an acquired company may decide not to work for us. Moreover, to the extent we acquire a company with existing products, those products may have lower gross margins than our customary products, which could adversely affect our gross margin and operating results. If an acquired company also has inventory that we assume, we will be required to write up the carrying value of that inventory to fair value. When that inventory is sold, the gross margin for those products will be nominal and our gross margin for that period will be negatively affected. The acquisition of another company or its products and technologies may also require us to enter into a geographic or business market in which we have little or no prior experience. These challenges could disrupt our ongoing business, distract our management and employees, harm our reputation and increase our expenses. These challenges are magnified as the size of the acquisition increases. Furthermore, these challenges would be even greater if we acquired a business or entered into a business combination transaction with a company that was larger and more difficult to integrate than the companies we have historically acquired.

Acquisitions may require large one-time charges and can result in increased debt or contingent liabilities, adverse tax consequences, additional stock-based compensation expense, and the recording and later amortization of amounts related to certain purchased intangible assets, any of which items could negatively impact our results of operations. In addition, we may record goodwill and other purchased intangible assets in connection with an acquisition and incur impairment charges in the future. For example, we have previously recorded recorded goodwill and long-lived assets impairment charges in connection with various acquisitions related to our mobile platforms group and with respect to our most recent acquisition of the DTV Business of AMD, Inc. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. Any of these types of charges could cause the price of our Class A common stock to decline. Beginning January 1, 2009, the accounting for business combinations has changed. We expect that the new requirements will have an impact on our unaudited condensed consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after the January 1, 2009.

Acquisitions or asset purchases made entirely or partially for cash may reduce our cash reserves. We may seek to obtain additional cash to fund an acquisition by selling equity or debt securities. Any issuance of equity or convertible debt securities may be dilutive to our existing shareholders. In addition, the equity or debt securities that we may issue could have rights, preferences or privileges senior to those of our Class A and/or Class B common stock. For example, as a consequence of the prior pooling-of-interests accounting rules, the securities issued in nine of our acquisitions were shares of Class B common stock, which have voting rights superior to those of our publicly traded Class A common stock.

We cannot assure you that we will be able to consummate any pending or future acquisitions or that we will realize any anticipated benefits from these acquisitions. We may not be able to find suitable acquisition opportunities that are available at attractive valuations, if at all. Even if we do find suitable acquisition opportunities, we may not be able to consummate the acquisitions on commercially acceptable terms, and any decline in the price of our Class A common stock may make it significantly more difficult and expensive to initiate or consummate additional acquisitions. In addition, acquisitions (whether or not ultimately consummated such as our abandoned acquisition of Emulex) may involve significant transaction expenses which are expensed as incurred and may negatively affect our operating expenses.

**Our outstanding civil litigation relating to the voluntary review of our past equity award practices reported in January 2007 could continue to result in significant costs to us. In addition, any other related action by a governmental agency could result in civil or criminal sanctions against certain of our current and/or former officers, directors and/or employees.**

In connection with the voluntary review of our past equity award practices, we restated our financial statements for each of the years ended December 31, 1998 through December 31, 2005, and for the three months ended March 31, 2006. Accordingly, you should not rely on financial information included in the reports on Forms 10-K, 10-Q and 8-K previously filed by Broadcom, the related opinions of our independent registered public accounting firm, or earnings press releases and similar communications issued by us, for periods ended on or before March 31, 2006, all of which have been superseded in their entirety by the information contained in our amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and our amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006, each filed January 23, 2007.

In June 2006 we received an informal request for information from the staff of the Los Angeles regional office of the SEC regarding our historical option granting practices. In December 2006 we were informed that the SEC had issued a formal order of investigation in the matter. In April 2008 the SEC brought a complaint against Broadcom alleging violations of the federal securities laws, and we entered into a settlement with the SEC. Without admitting or denying the SEC's allegations, we agreed to pay a civil penalty of \$12.0 million, which we recorded as a settlement cost in 2008, and stipulated to an injunction against future violations of certain provisions of the federal securities laws. The settlement was approved by the United States District Court for the Central District of California in late April 2008, thus concluding the SEC's investigation of this matter with respect to Broadcom.

As discussed in detail in Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, in May 2008 the SEC filed a complaint in the United States District Court for the Central District of California against Dr. Henry Samueli, our then Chairman of the Board and Chief Technical Officer, and three other former executive officers of Broadcom. The SEC's civil complaint alleges that Dr. Samueli, and the other defendants, violated the anti-fraud provisions of the federal securities laws, falsified books and records, and caused the company to report false financial results. We do not know when the SEC action will be resolved with respect to Dr. Samueli or what actions, if any, the SEC may require him to take in resolution of the action against him personally.

In August 2006 we were informally contacted by the U.S. Attorney's Office for the Central District of California and asked to produce documents. In 2007 and 2008 we continued to provide substantial amounts of documents and information to the U.S. Attorney's Office on a voluntary basis and pursuant to grand jury subpoenas. We are continuing to cooperate with the U.S. Attorney's Office in 2009. As widely reported, in June 2008 Dr. Henry T. Nicholas, III, our former President and Chief Executive Officer and a former director, and William J. Ruehle, our former Chief Financial Officer, were named in an indictment relating to alleged stock options backdating at the company. Also in June 2008 Dr. Samueli pled guilty to making a materially false statement in connection with the SEC's investigation described above. In September 2008 the United States District Court for the Central District of California rejected Dr. Samueli's plea agreement. Dr. Samueli has appealed the ruling in the United States Court of Appeals for the Ninth Circuit. Any further action by the SEC, the U.S. Attorney's Office or other governmental agency could result in additional civil or criminal sanctions and/or fines against us and/or certain of our current or former officers, directors and/or employees.

Additionally, as discussed in Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements, we currently are engaged in civil litigation with parties that claim, among other allegations, that certain of our current and former directors and officers improperly dated stock option grants to enhance their own profits on the exercise of such options or for other improper purposes. Although we and the other defendants intend to defend these claims vigorously, there are many uncertainties associated with any litigation, and we cannot assure you that these actions will be resolved without substantial costs and/or settlement charges that may exceed any reimbursement we may be entitled to under our directors' and officers' insurance policies.

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In addition, we rely on independent registered public accounting firms for opinions and consents to maintain current reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and to have effective registration statements under the Securities Act of 1933, as amended, or the Securities Act, on file with the SEC, including our outstanding registration statements on Forms S-3, S-4 and S-8. The pending arbitration proceedings involving Ernst & Young LLP, or E&Y, our former independent registered public accounting firm, could adversely impact our ability to obtain any necessary consents in the future from E&Y. In that event, we may be required to have our new independent registered public accounting firm reaudit the affected periods and during such reaudit may not be able to timely file required Exchange Act reports with the SEC or to issue equity, including common stock pursuant to equity awards that comprise a significant portion of our compensation packages, under our outstanding or any new registration statements. Furthermore, as a result of the reaudit, it is possible that additional accounting issues may be identified.

The resolution of the pending investigation by the U.S. Attorney's Office, the defense of our pending civil litigation, and the defense of any additional litigation that may arise relating to our past equity award practices or the January 2007 restatement of our prior financial statements has in the past and could continue to result in significant costs and diversion of the attention of management and other key employees. We have indemnification agreements with each of our present and former directors and officers, under which Broadcom is generally required to indemnify them against expenses, including attorneys' fees, judgments, fines and settlements, arising from the pending litigation and related government actions described above (subject to certain exceptions, including liabilities arising from willful misconduct, from conduct knowingly contrary to the best interests of Broadcom, or conduct that is knowingly fraudulent or deliberately dishonest or results in improper personal benefit). The potential amount of the future payments we could be required to make under these indemnification obligations could be significant and could have a material impact on our results of operations, particularly as the defendants in the criminal and civil actions described above prepare to go to trial.

Although we maintain various insurance policies related to the risks associated with our business, including directors' and officers' insurance, we cannot assure you that the amount of our insurance coverage will be sufficient, that our insurance policies will provide coverage for the matters and circumstances described above or that portions of payments by our insurance companies previously made to us will not be required to be repaid to the insurance companies as these matters reach conclusion. Certain of our insurance carriers have reserved their rights under their respective policies, and in the third quarter of 2008 one of our insurance carriers notified us that coverage was not available and that it intended to suspend payment to us. As a result, we ceased receiving reimbursements under these policies for our expenses related to the matters described above. However, in January 2009 we entered into an agreement with that insurance carrier and certain of our other insurance carriers pursuant to which, without prejudicing our rights or the rights of such insurers, we have received payments from certain of these insurers under these insurance policies. Nonetheless, if our coverage under these policies is reduced or eliminated, our potential financial exposure in the pending securities litigation and related government actions would be increased. Our business, financial position and results of operations may be materially and adversely affected to the extent that our insurance coverage fails to pay or reimburse expenses and any judgments, fines or settlement costs that we may incur in connection with these matters or in the event we are required to repay amounts that were previously paid by our insurance companies.

**Intellectual property risks and third party claims of infringement, misappropriation of proprietary rights or other claims against us could adversely affect our ability to market our products, require us to redesign our products or seek licenses from third parties, and seriously harm our operating results. In addition, the defense of such claims could result in significant costs and divert the attention of our management or other key employees.**

Companies in and related to the semiconductor industry and the wired and wireless communications markets often aggressively protect and pursue their intellectual property rights. There are various intellectual property risks associated with developing and producing new products and entering new markets, and we may not be able to obtain, at reasonable cost and upon commercially reasonable terms, licenses to intellectual property of others that is alleged to read on such new or existing products. From time to time, we have received, and may continue to receive, notices that claim we have infringed upon, misappropriated or misused other parties' proprietary rights. Moreover, in the past we have been and we currently are engaged in litigation with parties that claim that we infringed their patents or misappropriated or misused their trade secrets. In addition, we or our customers may be sued by other

parties that claim that our products have infringed their patents or misappropriated or misused their trade secrets, or which may seek to invalidate one or more of our patents. An adverse determination in any of these types of disputes could prevent us from manufacturing or selling some of our products, limit or restrict the type of work that employees involved in such litigation may perform for Broadcom, increase our costs of revenue, and expose us to significant liability. Any of these claims or litigation may materially and adversely affect our business, financial condition and results of operations. For example, in a patent or trade secret action, a court could issue a preliminary or permanent injunction that would require us to withdraw or recall certain products from the market, redesign certain products offered for sale or under development, or restrict employees from performing work in their areas of expertise. We may also be liable for damages for past infringement and royalties for future use of the technology, and we may be liable for treble damages if infringement is found to have been willful. In addition, governmental agencies may commence investigations or criminal proceedings against our employees, former employees and/or the company relating to claims of misappropriation or misuse of another party's proprietary rights. We may also have to indemnify some customers and strategic partners under our agreements with such parties if a third party alleges or if a court finds that our products or activities have infringed upon, misappropriated or misused another party's proprietary rights. We have received requests from certain customers and strategic partners to include increasingly broad indemnification provisions in our agreements with them. These indemnification provisions may, in some circumstances, extend our liability beyond the products we provide to include liability for combinations of components or system level designs and for consequential damages and/or lost profits. Even if claims or litigation against us are not valid or successfully asserted, these claims could result in significant costs and diversion of the attention of management and other key employees to defend. Additionally, we have sought and may in the future seek to obtain licenses under other parties' intellectual property rights and have granted and may in the future grant licenses to certain of our intellectual property rights to others in connection with cross-license agreements or settlements of claims or actions asserted against us. However, we may not be able to obtain licenses under another's intellectual property rights on commercially reasonable terms, if at all. In addition, any other rights that we grant to competitors may increase their ability to compete in the marketplace.

Our products may contain technology provided to us by other parties such as contractors, suppliers or customers. We may have little or no ability to determine in advance whether such technology infringes the intellectual property rights of a third party. Our contractors, suppliers and licensors may not be required to indemnify us in the event that a claim of infringement is asserted against us, or they may be required to indemnify us only up to a maximum amount, above which we would be responsible for any further costs or damages. In addition, we may have little or no ability to correct errors in the technology provided by such contractors, suppliers and licensors, or to continue to develop new generations of such technology. Accordingly, we may be dependent on their ability and willingness to do so. In the event of a problem with such technology, or in the event that our rights to use such technology become impaired, we may be unable to ship our products containing such technology, and may be unable to replace the technology with a suitable alternative within the time frame needed by our customers.

**We may not be able to adequately protect or enforce our intellectual property rights, which could harm our competitive position.**

Our success and future revenue growth will depend, in part, on our ability to protect our intellectual property. We primarily rely on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. Despite our efforts to protect our proprietary technologies and processes, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies and processes. We currently hold over 3,450 U.S. and 1,350 foreign patents and have more than 7,350 additional U.S. and foreign pending patent applications. However, we cannot assure you that any additional patents will be issued. Even if a new patent is issued, the claims allowed may not be sufficiently broad to protect our technology. In addition, any of our existing or future patents may be challenged, invalidated or circumvented. As such, any rights granted under these patents may not provide us with meaningful protection. We may not be able to obtain foreign patents or file pending applications corresponding to our U.S. patents and patent applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents. Some or all of our patents have in the past been licensed and likely will in the future be licensed to certain of our competitors through cross-license agreements. Moreover, because we have participated and continue to participate in developing various industry standards, we may be required to license some of our patents to others, including competitors, who develop products based on those standards.

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Certain of our software (as well as that of our customers) may be derived from so-called “open source” software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available under licenses, such as the GNU General Public License, or GPL, which impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the forms of license customarily used to protect our intellectual property. In addition, there is little or no legal precedent for interpreting the terms of certain of these open source licenses, including the determination of which works are subject to the terms of such licenses. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event that the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work. With respect to our proprietary software, we generally license such software under terms that prohibit combining it with open source software as described above. Despite these restrictions, parties may combine Broadcom proprietary software with open source software without our authorization, in which case we might nonetheless be required to release the source code of our proprietary software.

We generally enter into confidentiality agreements with our employees, consultants and strategic partners. We also try to control access to and distribution of our technologies, documentation and other proprietary information. Despite these efforts, internal or external parties may attempt to copy, disclose, obtain or use our products, services or technology without our authorization. Also, current or former employees may seek employment with our business partners, customers or competitors, and we cannot assure you that the confidential nature of our proprietary information will be maintained in the course of such future employment. Additionally, current, departing or former employees or third parties could attempt to penetrate our computer systems and networks to misappropriate our proprietary information and technology or interrupt our business. Because the techniques used by computer hackers and others to access or sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate, counter or ameliorate these techniques. As a result, our technologies and processes may be misappropriated, particularly in countries where laws may not protect our proprietary rights as fully as in the United States.

In addition, some of our customers have entered into agreements with us that grant them the right to use our proprietary technology if we fail to fulfill our obligations, including product supply obligations, under those agreements, and if we do not correct the failure within a specified time period. Also, some customers may require that we make certain intellectual property available to our competitors so that the customer has a choice among semiconductor vendors for solutions to be incorporated into the customer’s products. Moreover, we often incorporate the intellectual property of strategic customers into our own designs, and have certain obligations not to use or disclose their intellectual property without their authorization.

We cannot assure you that our efforts to prevent the misappropriation or infringement of our intellectual property or the intellectual property of our customers will succeed. We have in the past been and currently are engaged in litigation to enforce or defend our intellectual property rights, protect our trade secrets, or determine the validity and scope of the proprietary rights of others, including our customers. It is possible that the advent of or developments in such litigation may adversely affect our relationships and agreements with certain customers that are either involved in such litigation or also have business relationships with the party with whom we are engaged in litigation. Such litigation (and the settlement thereof) has been and will likely continue to be very expensive and time consuming. Additionally, any litigation can divert the attention of management and other key employees from the operation of the business, which could negatively impact our business and results of operations.

**Changes in current or future laws or regulations or the imposition of new laws or regulations, including new or changed tax regulations or new interpretations thereof, by federal or state agencies or foreign governments could adversely affect our results of operations, impede the sale of our products or otherwise harm our business.**

Changes in current laws or regulations applicable to us or the imposition of new laws and regulations in the United States or elsewhere could materially and adversely affect our business, financial condition and results of operations.

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We currently operate under tax holidays and favorable tax incentives in certain foreign jurisdictions. For instance, in Singapore we operate under tax holidays that reduce taxes on substantially all of our operating income in that jurisdiction. Such tax holidays and incentives often require us to meet specified employment and investment criteria in such jurisdictions. We cannot assure you that we will continue to meet such criteria or enjoy such tax holidays and incentives, or realize any net tax benefits from these tax holidays or incentives. If any of our tax holidays or incentives are terminated, our results of operations may be materially and adversely affected. Additionally, potential future U.S. tax legislation could impact the tax benefits we effectively realize from our tax holidays and tax incentives.

In a recent decision by the U. S. Court of Appeals for the Ninth Circuit in the case between Xilinx, Inc. and the Commissioner of Internal Revenue overturned a 2005 U.S. Tax Court ruling regarding treatment of certain compensation expenses under a company's research and development cost-sharing arrangements with affiliates. The Court of Appeals held that related parties to such an arrangement must share stock option costs, notwithstanding the fact that unrelated parties in such an arrangement would not share such costs. The case is subject to further appeal. The potential impact to Broadcom, should the IRS prevail, of including such stock-based compensation expenses in our research and development cost-sharing arrangements would be additional income for federal and state purposes from January 1, 2001 forward, and may result in additional related federal and state income and franchise taxes, and material adjustments to our federal and state net operating loss carryforwards, our federal and state capitalized research and development costs and our deferred tax positions. We are subject to ongoing examination of our income tax returns in the United States and other jurisdictions. We regularly assess the likely outcomes of these audits to determine the appropriateness of our provision for income taxes, but there can be no assurance that the outcomes from these audits will not have an adverse effect on our operating results.

The effects of regulation on our customers or the industries in which they operate may materially and adversely impact our business. For example, the Federal Communications Commission has broad jurisdiction over each of our target markets in the United States. Although current FCC regulations and the laws and regulations of other federal or state agencies are not directly applicable to our products, they do apply to much of the equipment into which our products are incorporated. FCC regulatory policies that affect the ability of cable or satellite operators or telephone companies to offer certain services to their customers or other aspects of their business may impede sales of our products in the United States. For example, in the past we have experienced delays when products incorporating our chips failed to comply with FCC emissions specifications.

In addition, we and our customers are subject to various import and export laws and regulations. Changes in or violations of such regulations could materially and adversely affect our business, financial condition and results of operations. Additionally, various government export regulations apply to the encryption or other features contained in some of our products. We have made numerous filings and applied for and received a number of export licenses under these regulations. However, if we fail to continue to receive licenses or otherwise comply with these regulations, we may be unable to manufacture the affected products at foreign foundries or ship these products to certain customers, or we may incur penalties or fines or our business, financial condition or results of operations may be otherwise adversely affected.

We and our customers may also be subject to regulation by countries other than the United States. Foreign governments may impose tariffs, duties and other import restrictions on components that we obtain from non-domestic suppliers and may impose export restrictions on products that we sell internationally. These tariffs, duties or restrictions could materially and adversely affect our business, financial condition and results of operations.

Due to environmental concerns, the use of lead and other hazardous substances in electronic components and systems is receiving increased attention. In response, the European Union passed the Restriction on Hazardous Substances, or RoHS, Directive, legislation that limits the use of lead and other hazardous substances in electrical equipment. The RoHS Directive became effective July 1, 2006. We believe that our current product designs and material supply chains are in compliance with the RoHS Directive.

**Because we depend on a few significant customers and/or design wins for a substantial portion of our revenue, the loss of a key customer or design win or any significant delay in our customers' product development plans could seriously impact our revenue and harm our business. In addition, if we are unable to continue to sell existing and new products to our key customers in significant quantities or to attract new significant customers, our future operating results could be adversely affected.**

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We have derived a substantial portion of our past revenue from sales to a relatively small number of customers. As a result, the loss of any significant customer could materially and adversely affect our financial condition and results of operations.

Sales to our five largest customers represented 33.2% and 37.3% of our net revenue in the six months ended June 30, 2009 and 2008, respectively. We expect that our largest customers will continue to account for a substantial portion of our net revenue in 2009 and for the foreseeable future. The identities of our largest customers and their respective contributions to our net revenue have varied and will likely continue to vary from period to period.

A significant portion of our revenue may also depend on a single product design win with a large customer. As a result, the loss of any such key design win or any significant delay in the ramp of volume production of the customer's products into which our product is designed could materially and adversely affect our financial condition and results of operations. For instance, as a result of the recent significant economic downturn, which caused a decline in the cellular market, as well as tempered expectations of the future growth rate for that market, and an increase in our implied discount rate due to higher risk premiums, as well as the decline in our market capitalization, we had to adjust our assumptions used to assess the estimated fair value of our mobile platforms business. In addition, these key design wins are often with large customers who have significantly greater financial, sales, marketing and other resources than we have and greater bargaining and pricing power, which could materially and adversely affect our operating margins.

We may not be able to maintain or increase sales to certain of our key customers or continue to secure key design wins for a variety of reasons, including the following:

- most of our customers can stop incorporating our products into their own products with limited notice to us and suffer little or no penalty;
- our agreements with our customers typically do not require them to purchase a minimum quantity of our products;
- many of our customers have pre-existing or concurrent relationships with our current or potential competitors that may affect the customers' decisions to purchase our products;
- our customers face intense competition from other manufacturers that do not use our products;
- some of our customers may choose to consolidate their supply sources to our detriment; and
- some of our customers offer or may offer products that compete with our products.

These relationships often require us to develop new products that may involve significant technological challenges. Our customers frequently place considerable pressure on us to meet their tight development schedules. Accordingly, we may have to devote a substantial portion of our resources to strategic relationships, which could detract from or delay our completion of other important development projects or the development of next generation products and technologies. Delays in development could impair our relationships with strategic customers and negatively impact sales of the products under development.

In addition, our longstanding relationships with some larger customers may also deter other potential customers who compete with these customers from buying our products. To attract new customers or retain existing customers, we may offer certain customers favorable prices on our products. We may have to offer the same lower prices to certain of our customers who have contractual "most favored nation" pricing arrangements. In that event, our average selling prices and gross margins would decline. The loss of a key customer or design win, a reduction in sales to any key customer, a significant delay in our customers' product development plans or our inability to attract new significant customers or secure new key design wins could seriously impact our revenue and materially and adversely affect our results of operations.

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

Highly complex products such as the products that we offer frequently contain hardware or software defects or bugs when they are first introduced or as new versions are released. Our products have previously experienced, and may in the future experience, these defects and bugs. If any of our products contains defects or bugs, or has reliability, quality or compatibility problems, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers and attract new customers. In addition, these defects or bugs could interrupt or delay sales or shipment of our products to customers. To alleviate these problems, we may have to invest significant capital and other resources. Although our products are tested by us, our subcontractors, suppliers and customers, it is possible that 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 field replacement costs. These problems may divert our technical and other resources from other development efforts and could result in claims against us by our customers or others, including possible claims for consequential damages and/or lost profits. Moreover, we may 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. In addition, system and handset providers that purchase components may require that we assume liability for defects associated with products produced by their manufacturing subcontractors and require that we provide a warranty for defects or other problems which may arise at the system level.

**We may be unable to attract, retain or motivate key senior management and technical personnel, which could seriously harm our business.**

Our future success depends to a significant extent upon the continued service of our key senior management personnel, including our Chief Executive Officer and other senior executives. We have employment agreements with our Chief Executive Officer and certain other executive officers; however the agreements do not govern the length of their service with Broadcom. We do not have employment agreements with most of our elected officers, or any other key employees, although we do have limited change in control severance benefit arrangements in place with certain executives. The loss of the services of key senior management or technical personnel could materially and adversely affect our business, financial condition and results of operations. For instance, if certain of these individuals were to leave our company unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity during the search for and while any such successor is integrated into our business and operations.

Furthermore, our future success depends on our ability to continue to attract, retain and motivate senior management and qualified technical personnel, particularly software engineers, digital circuit designers, RF and mixed-signal circuit designers and systems applications engineers. Competition for these employees is intense. If we are unable to attract, retain and motivate such personnel in sufficient numbers and on a timely basis, we will experience difficulty in implementing our current business and product plans. In that event, we may be unable to successfully meet competitive challenges or to exploit potential market opportunities, which could adversely affect our business and results of operations.

We have recently effected a number of cost saving measures and announced a restructuring plan in January 2009, both of which could negatively impact employee morale. Over the last few years we have also modified our compensation policies by increasing cash compensation to certain employees and instituting awards of restricted stock units, while simultaneously reducing awards of stock options. This modification of our compensation policies and the applicability of the Statement of Financial Accounting Standards, or SFAS, No. 123 (revised 2004), *Share-based Payment*, or SFAS 123R requirement to expense the fair value of equity awards to employees have increased our operating expenses. However, because we are mindful of the dilutive impact of our equity awards, we intend to further reduce the number of equity awards granted to employees over the next few years. While this may have a positive impact on our operating expenses over time, it may negatively impact employee morale and our ability to attract, retain and motivate employees. Our inability to attract and retain additional key employees and any increase in stock-based compensation expense could each have an adverse effect on our business, financial condition and results of operations.

**We depend on third-party subcontractors to assemble and test substantially all of our products. If any of our subcontractors experience production disruptions or financial difficulty, shipments of our products may be affected, which could adversely impact customer relationships or impair sales.**

We do not own or operate an assembly or test facility. Eight third-party subcontractors located in Asia assemble and test substantially all of our current products. Because we rely on third-party subcontractors to perform these functions, we cannot directly control our product delivery schedules and quality assurance. This lack of control could result in product shortages or quality assurance problems. These issues could delay shipments of our products or increase our assembly or testing costs. Additionally, due to the current economic environment it is possible that our subcontractors may experience financial difficulties that would impede their ability to operate effectively.

We do not have long-term agreements with any of our assembly or test subcontractors and typically procure services from these suppliers on a per order basis. If any of these subcontractors experience financial difficulties, suffer any damage to facilities, experience power outages or any other disruption of assembly or testing capacity, we may not be able to obtain alternative assembly and testing services in a timely manner, or at all. Due to the amount of time that it usually takes to qualify assemblers and testers, we could experience significant delays in product shipments if we are required to find alternative assemblers or testers for our components. Any problems that we may encounter with the delivery, quality or cost of our products could damage our customer relationships and materially and adversely affect our results of operations. We are continuing to develop relationships with additional third-party subcontractors to assemble and test our products. However, even if we use these new subcontractors, we will continue to be subject to all of the risks described above.

**As our international business expands, we are increasingly exposed to various legal, business, political and economic risks associated with our international operations.**

We currently obtain substantially all of our manufacturing, assembly and testing services from suppliers located outside the United States. In addition, 48.6% and 38.8% of our net revenue in the six months ended June 30, 2009 and 2008, respectively, was derived from sales to independent customers outside the United States, excluding foreign subsidiaries or manufacturing subcontractors of customers that are headquartered in the United States. We also frequently ship products to our domestic customers' international manufacturing divisions and subcontractors. Products shipped to international destinations, primarily in Asia, represented 89.0% and 86.9% of our net revenue in the six months ended June 30, 2009 and 2008, respectively. We also undertake design and development activities in Belgium, Canada, China, Denmark, France, Greece, India, Israel, Japan, Korea, the Netherlands, Spain, Taiwan and the United Kingdom, among other locations. In addition, we undertake various sales and marketing activities through regional offices in a number of countries. We intend to continue to expand our international business activities and to open other design and operational centers abroad. The continuing effects of the war in Iraq and terrorist attacks in the United States and abroad, the resulting heightened security, and the increasing risk of extended international military conflicts may adversely impact our international sales and could make our international operations more expensive. International operations are subject to many other inherent risks, including but not limited to:

- political, social and economic instability;
- exposure to different business practices and legal standards, particularly with respect to intellectual property;
- natural disasters and public health emergencies;
- nationalization of business and blocking of cash flows;
- trade and travel restrictions;
- the imposition of governmental controls and restrictions and unexpected changes in regulatory requirements;

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- burdens of complying with a variety of foreign laws;
- import and export license requirements and restrictions of the United States and each other country in which we operate;
- foreign technical standards;
- changes in taxation and tariffs;
- difficulties in staffing and managing international operations;
- difficulties in collecting receivables from foreign entities or delayed revenue recognition; and
- potentially adverse tax consequences.

Any of the factors described above may have a material adverse effect on our ability to increase or maintain our foreign sales.

Economic conditions in our primary overseas markets, particularly in Asia, may negatively impact the demand for our products abroad. All of our international sales to date have been denominated in U.S. dollars. Accordingly, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets or require us to assume the risk of denominating certain sales in foreign currencies. We anticipate that these factors will impact our business to a greater degree as we further expand our international business activities.

In addition, a significant portion of our cash and marketable securities are held in non-U.S. domiciled countries.

**We depend on five independent foundry subcontractors to manufacture substantially all of our current products, and any failure to secure and maintain sufficient foundry capacity could materially and adversely affect our business.**

We do not own or operate a fabrication facility. Five third-party foundry subcontractors located in Asia manufacture substantially all of our semiconductor devices in current production. Due to the current global economic environment it is possible that our foundry subcontractors could experience financial difficulties that would impede their ability to operate effectively. Additionally, availability of foundry capacity has at times in the past been reduced due to strong demand. If we are unable to secure sufficient capacity at our existing foundries, or in the event of a public health emergency or closure at any of these foundries, our product revenue, cost of product revenue and results of operations would be negatively impacted.

In September 1999 two of our third-party foundries' principal facilities were affected by a significant earthquake in Taiwan. As a consequence of this earthquake, they suffered power outages and equipment damage that impaired their wafer deliveries, which, together with strong demand, resulted in wafer shortages and higher wafer pricing industrywide. If any of our foundries experiences a shortage in capacity, suffers any damage to its facilities, experiences power outages, suffers an adverse outcome in pending or future litigation, or encounters financial difficulties or any other disruption of foundry capacity, we may encounter supply delays or disruptions, and we may need to qualify an alternative foundry. Our current foundries need to have new manufacturing processes qualified if there is a disruption in an existing process. We typically require several months to qualify a new foundry or process before we can begin shipping products from it. If we cannot accomplish this qualification in a timely manner, we may experience a significant interruption in supply of the affected products.

Because we rely on outside foundries, we face several significant risks in addition to those discussed above, including:

- a lack of guaranteed wafer supply and higher wafer prices, particularly in light of the recent volatility in the commodities markets, which has the impact of increasing the cost of materials used in production of wafers;

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- limited control over delivery schedules, quality assurance, manufacturing yields and production costs and other terms; and
- the unavailability of, or potential delays in obtaining access to, key process technologies.

The manufacture of integrated circuits is a highly complex and technologically demanding process. Although we work closely with our foundries to minimize the likelihood of reduced manufacturing yields, our foundries have from time to time experienced lower than anticipated manufacturing yields. This often occurs during the production of new products or the installation and start-up of new process technologies. Poor yields from our foundries could result in product shortages or delays in product shipments, which could seriously harm our relationships with our customers and materially and adversely affect our results of operations.

The ability of each foundry to provide us with semiconductor devices is limited by its available capacity and existing obligations. Although we have entered into contractual commitments to supply specified levels of products to some of our customers, we do not have a long-term volume purchase agreement or a significant guaranteed level of production capacity with any of our foundries. Foundry capacity may not be available when we need it or at reasonable prices. Availability of foundry capacity has in the past been reduced from time to time due to strong demand. Foundries can allocate capacity to the production of other companies' products and reduce deliveries to us on short notice. It is possible that foundry customers that are larger and better financed than we are, or that have long-term agreements with our main foundries, may induce our foundries to reallocate capacity to them. This reallocation could impair our ability to secure the supply of components that we need. Although we use five independent foundries to manufacture substantially all of our semiconductor products, each component is typically manufactured at only one or two foundries at any given time, and if any of our foundries is unable to provide us with components as needed and under acceptable terms, we could experience significant delays in securing sufficient supplies of those components. Also, our third party foundries typically migrate capacity to newer, state-of-the-art manufacturing processes on a regular basis, which may create capacity shortages for our products designed to be manufactured on an older process. We cannot assure you that any of our existing or new foundries will be able to produce integrated circuits with acceptable manufacturing yields, or that our foundries will be able to deliver enough semiconductor devices to us on a timely basis, or on reasonable terms or at reasonable prices. These and other related factors could impair our ability to meet our customers' needs and have a material and adverse effect on our business, financial condition and results of operations.

Although we may utilize new foundries for other products in the future, in using any new foundries we will be subject to all of the risks described in the foregoing paragraphs with respect to our current foundries.

### **To remain competitive, we must keep pace with rapid technological change and evolving industry standards in the semiconductor industry and the wired and wireless communications markets.**

Our future success will depend on our ability to anticipate and adapt to changes in technology and industry standards and our customers' changing demands. We sell products in markets that are characterized by rapid technological change, evolving industry standards, frequent new product introductions, short product life cycles and increasing demand for higher levels of integration and smaller process geometries. Our past sales and profitability have resulted, to a large extent, from our ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products incorporating the new standards and technologies. Our ability to adapt to these changes and to anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving our competitive position and prospects for growth. If new industry standards emerge, our products or our customers' products could become unmarketable or obsolete, and we could lose market share. We may also have to incur substantial unanticipated costs to comply with these new standards. In addition, our target markets continue to undergo rapid growth and consolidation. A significant slowdown in any of these wired and wireless communications markets could materially and adversely affect our business, financial condition and results of operations. These rapid technological changes and evolving industry standards make it difficult to formulate a long-term growth strategy because the semiconductor industry and the wired and wireless communications markets may not continue to develop to the extent or in the time periods that we anticipate. We have invested substantial resources in emerging technologies that did not achieve the market acceptance that we had expected. If new markets do not develop as and when we anticipate, or if our products do not

gain widespread acceptance in those markets, our business, financial condition and results of operations could be materially and adversely affected.

**We face intense competition in the semiconductor industry and the wired and wireless communications markets, which could reduce our market share in existing markets and affect our entry into new markets.**

The semiconductor industry and the wired and wireless communications markets are intensely competitive. We expect competition to continue to increase as industry standards become well known and as other competitors enter our target markets. We currently compete with a number of major domestic and international suppliers of integrated circuits and related applications in our target markets. We also compete with suppliers of system-level and motherboard-level solutions incorporating integrated circuits that are proprietary or sourced from manufacturers other than Broadcom. In all of our target markets we also may face competition from newly established competitors, suppliers of products based on new or emerging technologies, and customers who choose to develop their own semiconductor solutions. We expect to encounter further consolidation in the markets in which we compete.

Many of our competitors operate their own fabrication facilities and have longer operating histories and presence in key markets, greater name recognition, larger customer bases, and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we do. These competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the promotion and sale of their products. In addition, current and potential competitors have established or may establish financial or strategic relationships among themselves or with existing or potential customers, resellers or other third parties. Accordingly, new competitors or alliances among competitors could emerge and rapidly acquire significant market share. Existing or new competitors may also develop technologies that more effectively address our markets with products that offer enhanced features and functionality, lower power requirements, greater levels of integration or lower cost. Increased competition has resulted in and is likely to continue to result in declining average selling prices, reduced gross margins and loss of market share in certain markets. We cannot assure you that we will be able to continue to compete successfully against current or new competitors. If we do not compete successfully, we may lose market share in our existing markets and our revenues may fail to increase or may decline.

**We may experience difficulties in transitioning to smaller geometry process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.**

To remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify the manufacturing processes for our products and to redesign some products as well as standard cells and other integrated circuit designs that we may use in multiple products. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs. Currently most of our products are manufactured in .35 micron, .22 micron, .18 micron, .13 micron, 90 nanometer or 65 nanometer geometry processes. Although the majority of our products are currently manufactured in .13 microns, we are now designing most new products in 65 nanometers and planning for the transition to smaller process geometries. In the past, we have experienced some difficulties in shifting to smaller geometry process technologies or new manufacturing processes, which resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. The transition to 65 nanometer geometry process technology has resulted in significantly higher mask and prototyping costs, as well as additional expenditures for engineering design tools and related computer hardware. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes.

We are dependent on our relationships with our foundry subcontractors to transition to smaller geometry processes successfully. We cannot assure you that the foundries that we use will be able to effectively manage the transition in a timely manner, or at all, or that we will be able to maintain our existing foundry relationships or develop new ones. If any of our foundry subcontractors or we experience significant delays in this transition or fail to efficiently implement this transition, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations.

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As smaller geometry processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis, if at all. Moreover, even if we are able to achieve higher levels of design integration, such integration may have an adverse impact on our operating results, as a result of increasing costs and expenditures as described above as well as the risk that we may reduce our revenue by integrating the functionality of multiple chips into a single chip.

**Our stock price is highly volatile. Accordingly, you may not be able to resell your shares of common stock at or above the price you paid for them.**

The market price of our Class A common stock has fluctuated substantially in the past and is likely to continue to be highly volatile and subject to wide fluctuations. From January 1, 2008 through June 30, 2009 our Class A common stock has traded at prices as low as \$12.98 and as high as \$29.91 per share. Fluctuations have occurred and may continue to occur in response to various factors, many of which we cannot control, including:

- general economic and political conditions and specific conditions in the markets we address, including the continued volatility in the technology sector and semiconductor industry, the current global economic recession, trends in the broadband communications markets in various geographic regions, including seasonality in sales of consumer products into which our products are incorporated;
- quarter-to-quarter variations in our operating results;
- changes in earnings estimates or investment recommendations by analysts;
- rulings in currently pending or newly-instituted intellectual property litigation;
- other newly-instituted litigation or governmental investigations or an adverse decision or outcome in any litigation or investigations;
- announcements of changes in our senior management;
- the gain or loss of one or more significant customers or suppliers;
- announcements of technological innovations or new products by our competitors, customers or us;
- the gain or loss of market share in any of our markets;
- changes in accounting rules;
- continuing international conflicts and acts of terrorism;
- changes in the methods, metrics or measures used by analysts to evaluate our stock;
- changes in investor perceptions; or
- changes in expectations relating to our products, plans and strategic position or those of our competitors or customers.

In addition, the market prices of securities of Internet-related, semiconductor and other technology companies have been and remain volatile. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to the operating performance of the specific companies. Accordingly, you may not be able to resell your shares of common stock at or above the price you paid. In the past, we and other companies that have experienced volatility in the market price of their securities have been, and we currently are, the subject of securities class action litigation.

Due to the nature of our compensation programs, most of our executive officers sell shares of our common stock each quarter or otherwise periodically, often pursuant to trading plans established under Rule 10b5-1 promulgated under the Exchange Act. As a result, sales of shares by our executive officers may not be indicative of their respective opinions of Broadcom's performance at the time of sale or of our potential future performance. Nonetheless, the market price of our stock may be affected by sales of shares by our executive officers.

In addition, fluctuations in the price of our stock may reduce the ability of our share repurchase program to deliver long-term shareholder value, because the market price of the stock may decline significantly below the levels at which repurchases were made.

**We had a material weakness in internal control over financial reporting prior to 2007 and cannot assure you that additional material weaknesses will not be identified in the future. If our internal control over financial reporting or disclosure controls and procedures are not effective, there may be errors in our financial statements that could require a restatement or our filings may not be timely and investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate the effectiveness of our internal control over financial reporting as of the end of each year, and to include a management report assessing the effectiveness of our internal control over financial reporting in each Annual Report on Form 10-K. Section 404 also requires our independent registered public accounting firm to attest to and report on Broadcom's internal control over financial reporting.

In assessing the findings of the voluntary equity award review as well as the restatement of our unaudited condensed consolidated financial statements for periods ended on or before March 31, 2006, our management concluded that there was a material weakness, as defined in Public Company Accounting Oversight Board Auditing Standard No. 2, in our internal control over financial reporting as of December 31, 2005. Management believes this material weakness was remediated September 19, 2006 and, accordingly, no longer exists as of the date of this filing.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Over time, controls may become inadequate because changes in conditions or deterioration in the degree of compliance with policies or procedures may occur. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As a result, we cannot assure you that significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses, cause us to fail to timely meet our periodic reporting obligations, or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding disclosure controls and the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to timely meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

**Our co-founders and their affiliates can control the outcome of matters that require the approval of our shareholders, and accordingly we will not be able to engage in certain transactions without their approval.**

As of June 30, 2009 our co-founders, directors, executive officers and their respective affiliates beneficially owned 13.3% of our outstanding common stock and held 57.2% of the total voting power held by our shareholders. Accordingly, these shareholders currently have enough voting power to control the outcome of matters that require the approval of our shareholders. These matters include the election of our Board of Directors, the issuance of additional shares of Class B common stock, and the approval of most significant corporate transactions, including certain mergers and consolidations and the sale of substantially all of our assets. In particular, as of June 30, 2009 our two founders, Dr. Henry T. Nicholas III and Dr. Henry Samuelli, who are no longer officers or directors of Broadcom, beneficially owned a total of 12.1% of our outstanding common stock and held 56.9% of the total voting power held by our shareholders. Because of their significant voting stock ownership, we will not be able to engage

in certain transactions, and our shareholders will not be able to effect certain actions or transactions, without the approval of one or both of these shareholders. These actions and transactions include changes in the composition of our Board of Directors, certain mergers, and the sale of control of our company by means of a tender offer, open market purchases or other purchases of our Class A common stock, or otherwise. Repurchases of shares of our Class A common stock under our share repurchase program will result in an increase in the total voting power of our co-founders, directors, executive officers and their affiliates, as well as other continuing shareholders.

### **Some of the independent foundries upon which we rely to manufacture our products, as well as our own California and Singapore facilities, are located in regions that are subject to earthquakes and other natural disasters.**

Two of the third-party foundries, upon which we rely to manufacture a substantial number of our semiconductor devices, are located in Taiwan. Taiwan has experienced significant earthquakes in the past and could be subject to additional earthquakes. Any earthquake or other natural disaster, such as a tsunami, in a country in which any of our foundries is located could significantly disrupt our foundries' production capabilities and could result in our experiencing a significant delay in delivery, or substantial shortage, of wafers and possibly in higher wafer prices.

Our California facilities, including our principal executive offices and major design centers, are located near major earthquake fault lines. Our international distribution center and some of our third-party foundries are located in Singapore, which could also be subject to an earthquake, tsunami or other natural disaster. If there is a major earthquake or any other natural disaster in a region where one or more of our facilities are located, our operations could be significantly disrupted. Although we have established business interruption plans to prepare for any such event, we cannot guarantee that we will be able to effectively address all interruptions that such an event could cause.

Any supply disruption or business interruption could materially and adversely affect our business, financial condition and results of operations.

### **Our articles of incorporation and bylaws contain anti-takeover provisions that could prevent or discourage a third party from acquiring us.**

Our articles of incorporation and bylaws contain provisions that may prevent or discourage a third party from acquiring us, even if the acquisition would be beneficial to our shareholders. In addition, we have in the past issued and may in the future issue shares of Class B common stock in connection with certain acquisitions, upon exercise of certain stock options, and for other purposes. Class B shares have superior voting rights entitling the holder to ten votes for each share held on matters that we submit to a shareholder vote (as compared to one vote per share in the case of our Class A common stock) as well as the right to vote separately as a class (i) as required by law and (ii) in the case of a proposed issuance of additional shares of Class B common stock, unless such issuance is approved by at least two-thirds of the members of the Board of Directors then in office. Our Board of Directors also has the authority to fix the rights and preferences of shares of our preferred stock and to issue shares of common or preferred stock without a shareholder vote. It is possible that the provisions in our charter documents, the exercise of supervoting rights by holders of our Class B common stock, our co-founders', directors' and officers' ownership of a majority of the Class B common stock, or the ability of our Board of Directors to issue preferred stock or additional shares of Class B common stock may prevent or discourage third parties from acquiring us, even if the acquisition would be beneficial to our shareholders. In addition, these factors may discourage third parties from bidding for our Class A common stock at a premium over the market price for our stock. These factors may also materially and adversely affect voting and other rights of the holders of our common stock and the market price of our Class A common stock.

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

In the three months ended June 30, 2009, we issued an aggregate of 1.5 million shares of Class A common stock upon conversion of a like number of shares of Class B common stock. Each share of Class B common stock is convertible at any time into one share of Class A common stock at the option of the holder. The offers and sales of those securities were effected without registration in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act.

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### Issuer Purchases of Equity Securities

From time to time our Board of Directors has authorized various programs to repurchase shares of our Class A common stock depending on market conditions and other factors.

In July 2008 the Board of Directors authorized our current program to repurchase shares of Broadcom's Class A common stock having an aggregate value of up to \$1.0 billion. Repurchases under the program may be made at any time during the period that commenced July 31, 2008 and continuing through and including July 31, 2011. As of June 30, 2009, \$524.9 million was still authorized for the repurchase of shares. The following table presents details of our repurchases during the three months ended June 30, 2009:

<u>Period</u>	<u>Total Number of Shares Purchased (In thousands)</u>	<u>Average Price per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan (In thousands)</u>	<u>Approximate Dollar Value of Shares That May yet be Purchased under the Plan (In thousands)</u>
April 2009	—	\$ —	—	
May 2009	—	—	—	
June 2009	2,032	25.08	2,032	
Total	<u>2,032</u>	25.08	<u>2,032</u>	<u>\$ 524,854</u>

Repurchases under our share repurchase programs were and will be made in open market or privately negotiated transactions in compliance with Rule 10b-18 promulgated under the Exchange Act.

### Item 3. Defaults upon Senior Securities

None.

### Item 4. Submission of Matters to a Vote of Security Holders

(a) Our 2009 Annual Meeting of Shareholders, or the 2009 Annual Meeting, was held May 14, 2009.

(b) At the 2009 Annual Meeting, the shareholders elected each of the following nominees as directors, to serve on our Board of Directors until the next annual meeting of shareholders and/or until their successors are duly elected and qualified. The vote for each director was as follows:

	<u>Class A Shares/Votes</u>	<u>Class B Shares</u>	<u>Class B Votes</u>	<u>Total Affirmative Votes</u>
George L. Farinsky	331,945,868	31,354,102	313,541,020	645,486,888
Nancy H. Handel	336,011,846	31,354,102	313,541,020	649,552,866
Eddy W. Hartenstein	311,110,059	31,354,102	313,541,020	624,651,079
John E. Major	296,199,881	31,354,102	313,541,020	609,740,901
Scott A. McGregor	345,630,299	31,354,102	313,541,020	659,171,319
William T. Morrow	346,106,909	31,354,102	313,541,020	659,647,929
Robert E. Switz	330,551,473	31,354,102	313,541,020	644,092,493

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(c) At the 2009 Annual Meeting, the Shareholders also voted on the following proposal and cast their votes as follows:

To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2009.

	Class A Shares/ Votes	Class B Shares	Class B Votes	Total Votes
For	371,980,837	31,356,005	313,560,050	685,540,887
Against	663,704	27,446	274,460	938,164
Abstain	359,704	1,912	19,120	378,824
Broker Non-Votes	N/A	N/A	N/A	N/A

### Item 5. Other Information

In May 2009, our Board of Directors dissolved the Equity Award Committee and reconstituted its other committees. The current members of each committee and the respective committee chairs are identified in the following table:

C = Chair	M = Member	Audit	Compensation	Nominating & Corporate Governance
<b>Independent Directors</b>				
Joan L. Amble (1)		M		
George L. Farinsky		M		
Nancy H. Handel		C		
Eddy W. Hartenstein			M	
John E. Major (2)			C	M
William T. Morrow				M
Robert E. Switz		M		C

- (1) Ms. Amble was elected to the Board of Directors May 28, 2009.
- (2) Mr. Major also continues to serve as Chairman of the Board of Directors.

The Board has determined that each member of the Audit Committee (i) qualifies as an “audit committee financial expert” under applicable SEC rules and regulations governing composition of the Audit Committee and (ii) satisfies the “financial sophistication” requirements of the Nasdaq listing standards.

### Item 6. Exhibits

(a) *Exhibits.* The following Exhibits are attached hereto and incorporated herein by reference:

Exhibit Number	Description
10.1†	Settlement and Patent License and Non-Assert Agreement by and between Qualcomm Incorporated and the Registrant (Filed as an exhibit to Form 8-K/A July 23, 2009 and incorporated herein by reference).
31	Certifications of the Chief Executive Officer and Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of the Chief Executive Officer and Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and furnished herewith pursuant to SEC Release No. 33-8238.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

† Confidential treatment has been requested with respect to the redacted portions of the referenced exhibit.

\* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised

that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

**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.

BROADCOM CORPORATION,  
a California corporation  
(Registrant)

/s/ ERIC K. BRANDT

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Eric K. Brandt  
*Senior Vice President and Chief Financial Officer*  
(Principal Financial Officer)

/s/ ROBERT L. TIRVA

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Robert L. Tirva  
*Vice President and Corporate Controller*  
(Principal Accounting Officer)

July 23, 2009

EXHIBIT INDEX

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Scott A. McGregor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Broadcom Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ SCOTT A. MCGREGOR

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Scott A. McGregor  
*President and Chief Executive Officer*  
(Principal Executive Officer)

Date: July 23, 2009

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eric K. Brandt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Broadcom Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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/s/ ERIC K. BRANDT  
Eric K. Brandt  
*Senior Vice President and  
Chief Financial Officer*  
(Principal Financial Officer)

Date: July 23, 2009

*The following certifications are being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and pursuant to SEC Release No. 33-8238 are being “furnished” to the SEC rather than “filed” either as part of the Report or as a separate disclosure statement, and are not to be incorporated by reference into the Report or any other filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. The foregoing certifications shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of Section 18 or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended.*

**Certification of Chief Executive Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Broadcom Corporation (the “Company”) hereby certifies, to such officer’s knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2009 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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/s/ SCOTT A. MCGREGOR  
Scott A. McGregor  
*Chief Executive Officer*

Date: July 23, 2009

**Certification of Chief Financial Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Broadcom Corporation (the “Company”) hereby certifies, to such officer’s knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2009 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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/s/ ERIC K. BRANDT  
Eric K. Brandt  
*Chief Financial Officer*

Date: July 23, 2009