BROADCOM CORP

FORM 10-Q
(Quarterly Report)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2000

OR

[X] 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.)

16215 ALTON PARKWAY
IRVINE, CALIFORNIA 92618-3616
(Address of principal executive offices and zip code)

(949) 450-8700
(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 [X] No [ ]

The number of shares of the registrant's common stock, $0.0001 par value, outstanding as of May 5, 2000: 121,347,985 shares of Class A common stock and 93,837,315 shares of Class B common stock.

BROADCOM CORPORATION

QUARTERLY REPORT ON
FORM 10-Q

THREE MONTHS ENDED
MARCH 31, 2000

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BROADCOM CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	March 31, 2000	December 31, 1999(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 235,214	$ 179,447
Short-term investments	90,902	86,215
Accounts receivable, net	91,516	91,457
Inventory	30,991	19,177
Deferred taxes	8,380	8,380
Other current assets	22,037	12,440
Total current assets	479,040	397,116
Property and equipment, net	51,074	48,288
Long-term investments	--	9,351
Deferred taxes	207,433	134,277
Other assets	11,490	7,695
Total assets	$ 749,037	$ 596,727
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 55,856	$ 45,728
Wages and related benefits	14,565	15,273
Accrued liabilities	20,548	26,123
Current portion of long-term debt	471	1,578
Total current liabilities	91,440	88,702
Long-term debt, less current portion	395	548
Shareholders' equity:		
Common stock	541,079	434,261
Notes receivable from employees	(1,485)	(1,675)
Deferred compensation	(9,482)	(10,396)
Retained earnings	127,090	85,287
Total shareholders' equity	657,202	507,477
Total liabilities and shareholders' equity	$ 749,037	$ 596,727

(1) The consolidated balance sheet as of December 31, 1999 has been restated to give retroactive effect to acquisitions accounted for using the pooling-of-interests method.

See accompanying notes.

BROADCOM CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended March 31,	
	2000	1999(1)
Revenue	$191,347	$ 99,980
Cost of revenue	78,992	40,815
Gross profit	112,355	59,165
Operating expense:		
Research and development	42,285	23,420
Selling, general and administrative	18,333	13,462
Merger-related costs	2,901	--
Income from operations	48,836	22,283
Interest and other income, net	3,418	1,721
Income before income taxes	52,254	24,004
Provision for income taxes	10,451	8,335
Net income	$ 41,803	$ 15,669
Basic earnings per share	$ .20	$ .08
Diluted earnings per share	$ .17	$ .07
Weighted average shares (basic)	209,389	193,044
Weighted average shares (diluted)	250,661	224,323

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(1) The consolidated statement of operations for the three months ended March 31, 1999 has been restated to give retroactive effect to acquisitions accounted for using the pooling-of-interests method.

See accompanying notes.

BROADCOM CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999(1)
OPERATING ACTIVITIES		
Net income	$ 41,803	$ 15,669
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,121	3,299
Amortization of deferred compensation	1,062	863
Deferred taxes	(18,222)	(614)
Change in operating assets and liabilities:		
Accounts receivable	(59)	(4,093)
Inventory	(11,814)	(8,001)
Prepaid expenses and other assets	(13,392)	(134)
Accounts payable	10,128	8,995
Income taxes	(393)	1,300
Other accrued liabilities	(5,890)	5,502
Net cash provided by operating activities	7,344	22,786
INVESTING ACTIVITIES		
Purchases of property and equipment	(6,907)	(8,046)
Purchases of held-to-maturity investments	--	(15,343)
Proceeds from sale of held-to-maturity investments	4,664	--
Net cash used in investing activities	(2,243)	(23,389)
FINANCING ACTIVITIES		
Proceeds from long-term obligations	250	--
Payments on long-term obligations	(1,322)	(1,864)
Payments on capital lease obligations	(188)	(270)
Net proceeds from issuance of common stock	24,269	13,335
Tax benefit from exercise of stock options and stock purchase plan	27,467	6,960
Proceeds from repayment of notes receivables from employees	190	413
Net cash provided by financing activities	50,666	18,574
Increase in cash and cash equivalents	55,767	17,971
Cash and cash equivalents at beginning of period	179,447	74,670
Cash and cash equivalents at end of period	$ 235,214	$ 92,641
Supplemental disclosure of non-cash activities:		
Notes receivable from employees in connection with exercise of stock options	$ --	$ 211

(1) The consolidated statement of cash flows for the three months ended March 31, 1999 has been restated to give retroactive effect to acquisitions accounted for using the pooling-of-interests method.

See accompanying notes.

BROADCOM CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2000

1. Basis of Presentation

The condensed financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of Broadcom Corporation and its subsidiaries (collectively, the "Company") at March 31, 2000 and the consolidated results of its operations and cash flows for the three months ended March 31, 2000 and 1999. All intercompany accounts and transactions have been eliminated. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the three months ended March 31, 2000 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited condensed consolidated financial statements do not include footnotes and certain financial presentations normally required under generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 1999, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 30, 2000.

2. Business Combinations

Pooling-of-Interests Transactions

On February 29 and March 1, 2000 the Company completed the acquisitions of Digital Furnace Corporation (Digital Furnace), BlueSteel Networks, Inc. (BlueSteel), and Stellar Semiconductor, Inc. (Stellar). Digital Furnace develops communications algorithms and software that increase the capacity of existing broadband networks for interactive services, BlueSteel develops high-performance Internet security processors for e-commerce and VPN (Virtual Private Network) applications, and Stellar develops 3D graphics technology.

The Company issued in aggregate 2,015,307 shares of its Class B common stock in exchange for all shares of the acquired companies' preferred stock and common stock and reserved an additional 330,294 shares of its Class B common stock for issuance upon exercise of employee stock options and other rights assumed by the Company.

Each of the three acquisitions was accounted for as a pooling of interests. Accordingly, the Company's consolidated financial statements have been restated to include the pooled operations of Digital Furnace, BlueSteel and Stellar as if they had combined with the Company at the beginning of the first period presented. The restated consolidated financial statements also include the pooled operations of the Company's prior acquisitions.

A reconciliation of net income and diluted earnings per share originally reported for the three months ended March 31, 1999 to the amounts presented in the accompanying Statements of Operations is as follows:

	Three Months Ended March 31, 1999 (In thousands, except per share data)
Net income	
Broadcom and subsidiaries	$ 16,494
Digital Furnace, BlueSteel and Stellar	(825)
Total	$ 15,669
Diluted earnings per share	
Broadcom and subsidiaries	$ .07
Digital Furnace, BlueSteel and Stellar	--
Total	$ .07

None of the three acquired companies had revenue in the three months ended March 31, 2000 and 1999. Included in net income for the three months ended March 31, 2000 were net losses of $3.2 million from Digital Furnace, BlueSteel and Stellar incurred prior to February 29 and March 1, 2000.

Merger-Related Costs

In connection with the acquisitions of Digital Furnace, BlueSteel and Stellar, the Company recorded approximately $2.9 million in charges in the three months ended March 31, 2000 for direct and other merger-related costs and certain restructuring programs.

Merger transaction costs of approximately $2.1 million consisted primarily of fees of attorneys, accountants and other related charges. Restructuring costs of approximately $0.8 million included the disposal of assets and adjustments to conform the accounting policies of Digital Furnace, BlueSteel and Stellar to those of the Company.

3. Earnings Per Share

The following table sets forth the computation of earnings per share:

	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999
	(In thousands, except per share data)	
Numerator:		
Net income	$ 41,803	$ 15,669
Denominator:		
Weighted-average shares outstanding	212,987	200,426
Less: nonvested common shares outstanding	(3,598)	(7,382)
Denominator for basic earnings per common share	209,389	193,044
Effect of dilutive securities:		
Nonvested common shares	3,587	4,740
Stock options	37,685	26,507
Warrants	--	32
Denominator for diluted earnings per common share	250,661	224,323
Basic earnings per share	$ 0.20	$ 0.08
Diluted earnings per share	$ 0.17	$ 0.07

4. Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market and consists of the following:

	March 31, 2000	December 31, 1999
	(In thousands)	
Work in process	$17,035	$11,878
Finished goods	13,956	7,299
	$30,991	$19,177

5. Long-term Debt

The following is a summary of the Company's long-term debt and other loans, including debt and loans assumed upon acquisition:

	March 31, 2000	December 31, 1999
	(In thousands)	
Line of credit at a 12.0% rate secured by certain of the Company's assets	$ --	$ 770
Note payable at a 8.58% rate secured by certain of the Company's assets	--	300
Capitalized lease obligations payable in varying monthly installments at rates from 8.2% to 14.7%	866	1,056
	866	2,126
Less current portion of long-term debt	(471)	(1,578)
	$ 395	$ 548

6. Shareholders' Equity

On February 11, 2000 the Company effected a two-for-one stock split of its Class A common stock and Class B common stock in the form of a 100% stock dividend. All share numbers and per share amounts contained in these notes and in the accompanying consolidated financial statements have been retroactively restated to reflect this change in the Company's capital structure.

7. Litigation

In July 1997 the Company commenced an action against Sarnoff Corporation and Sarnoff Digital Communications, Inc., now known as NxtWave Communications, Inc. (collectively, "Sarnoff") in the California Superior Court alleging breach of contract, fraud, misappropriation of trade secrets, false advertising, trade libel, intentional interference with prospective economic advantage and unfair competition. The claims center on Sarnoff's violation of a non-disclosure agreement entered into with the Company with respect to limited use of certain of the Company's technology and on inaccurate comparisons that the Company believes Sarnoff has made in its product advertising and in statements to potential customers and others. This action was removed to the United States District Court for the Central District of California, and was stayed pending resolution of an action Sarnoff had brought against the Company in April 1997 in New Jersey Superior Court. Following the decision in the New Jersey action in the Company's favor in early 1999, Sarnoff filed a motion for summary judgment in the California case on the basis that the issues therein had been or should have been previously litigated in the New Jersey action under the New Jersey "entire controversy" doctrine. Following oral argument in August 1999, the District Court granted Sarnoff's motion and dismissed the Company's claims on the grounds that they should have been brought as part of the New Jersey action. The Company believes that the California action involves facts, circumstances and claims unrelated to those at issue in the New Jersey action, and has filed an appeal of the District Court's ruling. The Company filed its opening brief in the Ninth Circuit Court of Appeals in March 2000. On May 8, 2000, Sarnoff filed its opposing brief, and the Company will submit its reply brief shortly.

In March 2000 Intel Corporation and its subsidiary Level One Communications, Inc. (collectively, "Intel") filed a complaint in California Superior Court asserting claims against the Company for misappropriation of trade secrets, unfair competition, and tortious interference with existing contractual relations by the Company in connection with its recent hiring of three former Intel employees. The complaint sought injunctive relief, an accounting, damages, exemplary damages and attorneys' fees. Intel filed a first amended complaint on April 28, 2000 seeking additional relief and containing certain additional allegations, but asserting the same causes of action as the original complaint. The litigation is in its early stages. A preliminary injunction hearing in the matter is expected to conclude on or about May 24, 2000. The Company has denied any wrongdoing or liability and has instructed its attorneys to vigorously defend the action.

In September 1998 Motorola, Inc. ("Motorola") filed a complaint in United States District Court for the District of Massachusetts against AltoCom, Inc. ("AltoCom") (and co-defendant, PC-Tel, Inc.), asserting that (i) AltoCom's V.34 and V.90 compliant software modem technology infringes several patents owned by Motorola, (ii) AltoCom induces its V.34 and V.90 licensees to infringe such patents, and (iii) AltoCom contributorily infringes such patents. The complaint sought a preliminary and permanent injunction against AltoCom as well as the recovery of monetary damages, including treble damages for willful infringement. In October 1998 Motorola affirmatively dismissed its case in the District of Massachusetts and filed a substantially similar complaint in the United States District Court for the District of Delaware. AltoCom has filed an answer and affirmative defenses to the District of Delaware complaint. AltoCom has also asserted a counterclaim requesting declaratory relief that AltoCom has not infringed the Motorola patents and that such patents are invalid and/or unenforceable as well as a counterclaim requesting declaratory and injunctive relief based on breach of contract theory. AltoCom believes that it has strong defenses to Motorola's claims on invalidity, noninfringement and inequitable conduct grounds. In May 2000 Motorola filed an amended complaint alleging that AltoCom's technology infringes an additional Motorola patent. The parties are currently engaged in discovery in the action. A hearing on patent claims construction is scheduled to commence in December 2000 and a three-week trial is scheduled to begin in June 2001. AltoCom became a subsidiary of the Company on August 31, 1999. In September 1999 PC-Tel, Inc., the co-defendant in the case, reached a settlement with Motorola.

Although AltoCom believes that it has strong defenses and is defending the action vigorously, a finding of infringement by AltoCom as to at least one of the patents in this action could lead to liability for monetary damages (which could be trebled in the event that the infringement were found to have been willful), the issuance of an injunction requiring that AltoCom withdraw various products from the market, and indemnification claims by AltoCom's customers or strategic partners, each of which events could have a material adverse effect on AltoCom's, and possibly the Company's, business, results of operations and financial condition.

The Company and its subsidiaries are also involved in other legal proceedings, claims and litigation arising in the ordinary course of business.

The pending lawsuits involve complex questions of fact and law and could require the expenditure of significant costs and diversion of resources to defend. Although management currently believes the outcome of outstanding legal proceedings, claims and litigation will not have a material adverse effect on the Company's business, results of operations or financial condition, the results of litigation are inherently uncertain, and an adverse outcome is at least reasonably possible. The Company is unable to estimate the range of possible loss from outstanding litigation, and no amounts have been provided for such matters in the accompanying consolidated financial statements.

8. Subsequent Event

In April 2000 the Shareholders approved an increase in the number of authorized shares of Class A common stock from 400,000,000 to 800,000,000 and in the number of authorized shares of Class B common stock from 200,000,000 to 400,000,000, and approved an amendment to the Company's 1998 Stock Incentive Plan, as amended, to increase the number of shares of Class A common stock reserved for issuance under the plan by 15,000,000 shares.

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 the Consolidated Financial Statements and related Notes thereto contained elsewhere in this Report. The information in this Report 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 SEC, including our Annual Report on Securities and Exchange Commission ("SEC") Form 10-K for the year ended December 31, 1999 and our reports on Forms 10-Q and 8-K, that discuss our business in greater details.

The section entitled "Risk Factors" set forth in this Form 10-Q and similar discussions in our Annual Report on Form 10-K for the year ended December 31, 1999, in our recent Current Reports on Form 8-K, and in our other SEC filings, discuss some of the important risk factors that may affect our business, results of operations and financial condition. 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 invest in our company or to maintain or increase your investment.

This Report contains forward-looking statements which include, but are not limited to, statements concerning projected revenues, expenses, gross profit and income, the need for additional capital, Year 2000 compliance, market acceptance of our products, our ability to consummate acquisitions and integrate their operations successfully, our ability to achieve further product integration, the status of evolving technologies and their growth potential, our production capacity, our ability to migrate to smaller process geometries, and the success of pending litigation. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

In this Report, all share numbers and per share amounts have been retroactively adjusted to reflect our 2-for-1 stock splits, each in the form of a 100% stock dividend, effective February 17, 1999 and February 11, 2000, respectively.

OVERVIEW

We are the leading provider of highly integrated silicon solutions that enable broadband digital transmission of voice, video and data to and throughout the home and within the business enterprise. These integrated circuits permit the cost-effective delivery of high-speed, high-bandwidth networking using existing communications infrastructures that were not originally designed for the transmission of broadband digital content. Using proprietary technologies and advanced design methodologies, we design, develop and supply integrated circuits for a number of the most significant broadband communications markets, including the markets for digital cable set-top boxes, cable modems, high-speed office networks, home networking, Voice over Internet Protocol (VoIP), residential broadband gateways, direct broadcast satellite and terrestrial digital broadcast, and digital subscriber line (xDSL). From our inception in 1991 through 1994, we were primarily engaged in product development and the establishment of strategic customer and foundry relationships. During that period, we generated the majority of our revenue from development work performed for key customers. We began shipping our products in 1994, and subsequently our revenue has grown predominately through sales of our semiconductor products. We intend to continue to enter into development contracts with key customers, but expect that development revenue will constitute a decreasing percentage of our total revenue. We also generate a small percentage of our product revenue from sales of software and software support and sales of system-level reference designs.

We recognize product revenue at the time of shipment. Provision is concurrently made for estimated product returns, which historically have been immaterial. Our products typically carry a one-year warranty. We recognize development revenue when earned. Revenue from licensed software is recognized at the time of shipment, provided that we have vendor-specific objective evidence of the fair value of each element of the software offering. Revenue from post-contract customer support and any other future deliverables is deferred and earned over the support period or as contract elements are delivered.

From time to time, our key customers have placed large orders causing our quarterly revenue to fluctuate significantly. We expect these fluctuations will continue in the future. Sales to our five largest customers, including sales to their respective manufacturing subcontractors, decreased to approximately 64.6% of our revenue in the three months ended March 31, 2000, as compared to 81.6% in the three months ended March 31, 1999. We expect that our key customers will continue to account for a significant portion of our revenue for 2000 and in the future.

Our gross margin 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:

o our product mix;

o the position of our products in their respective life cycles;

o competitive pricing strategies;

o the mix of product revenue and development revenue; and

o manufacturing cost efficiencies and inefficiencies.

For example, newly-introduced products generally have higher average selling prices and gross margins, both of which typically decline over product life cycles due to competitive pressures and volume pricing agreements. Our gross margin and operating results in the future may continue to fluctuate as a result of these and other factors.

The sales cycle for the test and evaluation of our products can range from three to six months or more, with an additional three to six months or more before a customer commences volume production of equipment incorporating our products. Due to these lengthy sales cycles, we may experience a significant delay between increasing expenses for research and development and selling, general and administrative efforts, and the generation of corresponding revenue, if any. Furthermore, during 2000 and thereafter, we intend to continue to increase our investment in research and development, selling, general and administrative functions and inventory as we expand our operations through indigenous growth and acquisitions. We anticipate that the rate of new orders may vary significantly from month to month. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially for future quarters, would be materially and adversely affected.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2000 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 1999

The following table sets forth certain statement of operations data expressed as a percentage of total revenue:

	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999(1)
Revenue	100.0%	100.0%
Cost of revenue	41.3	40.8
Gross profit	58.7	59.2
Operating expense:		
Research and development	22.1	23.4
Selling, general and administrative	9.6	13.5
Merger related costs	1.5	--
Income from operations	25.5	22.3
Interest and other income, net	1.8	1.7
Income before income taxes	27.3	24.0
Provision for income taxes	5.5	8.3
Net income	21.8%	15.7%

(1) Restated to give retroactive effect to acquisitions accounted for using the pooling-of-interests method.

Effects of Pooling-of-Interests Transactions. On February 29 and March 1, 2000 we completed the acquisitions of Digital Furnace Corporation, BlueSteel Networks, Inc., and Stellar Semiconductor, Inc. (collectively, the "Acquired Companies"). Each of the acquisitions was accounted for as a pooling of interests. Accordingly, our historical consolidated financial statements and the discussion and analysis of financial condition and results of operations for prior periods have been restated to include the pooled operations of these three companies as if they had combined with our company at the beginning of the first period presented. The restated historical consolidated financial statements also include the pooled operations of our prior acquisitions. Each of the Acquired Companies was in the development stage, and none had material revenue in 1999 or in the three months ended March 31, 2000. Included in net income for the three months ended March 31, 1999 were net losses of $0.8 million from the Acquired Companies. Included in net income for the three months ended March 31, 2000 were net losses of $3.2 million from the Acquired Companies incurred prior to February 29 and March 1, 2000.

Revenue. Revenue consists of product revenue generated principally by sales of our semiconductor products, and to a lesser extent, from sales of software and software support and development revenue generated under development contracts with our customers. Revenue for the three months ended March 31, 2000 was $191.3 million, an increase of $91.4 million or 91.4% from revenue of $100.0 million in the three months ended March 31, 1999. This growth in revenue resulted mainly from increases in volume shipments of our semiconductor products for the high-speed networking market, digital cable set-top boxes and cable modems.

Gross Profit. Gross profit represents revenue less the cost of revenue. Cost of revenue includes the cost of purchasing the finished silicon wafers processed by independent foundries, and costs associated with assembly, test and quality assurance for those products, as well as costs of personnel and equipment associated with manufacturing support and contracted development work. Gross profit for the three months ended March 31, 2000 was $112.4 million or 58.7% of revenue, an increase of $53.2 million as compared with gross profit of $59.2 million or 59.2% of revenue in the three months ended March 31, 1999. The increase in gross profit was mainly attributable to the significant increase in the volume of semiconductor product shipments. The decrease in gross profit as a percentage of revenue was largely driven by volume-pricing agreements and competitive pricing strategies on certain high volume products. We expect that gross profit as a percentage of revenue will continue to decline in future periods due to higher anticipated silicon wafer costs and as volume-pricing agreements and competitive pricing strategies continue to take effect. In addition, our gross profit may be affected by the future introduction of certain lower margin products.

Research and Development Expense. Research and development expense consists primarily of salaries and related costs of employees engaged in research, design and development activities, costs related to engineering design tools, and subcontracting costs. Research and development expense for the three months ended March 31, 2000 was $42.3 million or 22.1% of revenue, an increase of $18.9 million or 80.6% as compared with research and development expense of $23.4 million or 23.4% of revenue for the three months ended March 31, 1999. The increase in research and development expense in absolute dollars was primarily due to the addition of personnel and the investment in design tools for the development of new products and the enhancement of existing products. The decrease in research and development expense as a percentage of revenue reflected the significant increase in revenue in the three months ended March 30, 2000 as compared to the respective prior year period. We expect that research and development expense in absolute dollars will continue to increase for the foreseeable future as a result of indigenous growth and acquisitions.

Selling, General and Administrative Expense. Selling, general and administrative expense consists primarily of personnel-related expenses, professional fees, trade show expenses and facilities expenses. Selling, general and administrative expense for the three months ended March 31, 2000 was $18.3 million or 9.6% of revenue, an increase of $4.9 million or 36.2% as compared with selling, general and administrative expense of $13.5 million or 13.5% of revenue for the three months ended March 31, 2000. The increase in absolute dollars reflected higher personnel related costs resulting from the hiring of sales and marketing personnel, senior management and administrative personnel, and increased occupancy, legal and other professional fees. The decline in selling, general and administrative expense as a percentage of revenue reflected the significant increase in revenue during the three months ended March 31, 2000 as compared with the respective prior year period. We expect that selling, general and administrative expense in absolute dollars will continue to increase for the foreseeable future to support the planned continued expansion of our operations through indigenous growth and acquisitions and as a result of periodic changes in our infrastructure to support increased headcount, acquisition and integration activities, and international operations.

Merger-Related Costs. Merger-related costs consist primarily of transaction costs, such as fees for attorneys, accountants and other related fees and expenses, and certain restructuring costs related to the disposal of assets and the write-down of unutilized assets. Merger-related costs of approximately $2.9 million in the three months ended March 31, 2000 were incurred in connection with the acquisitions of Digital Furnace Corporation, BlueSteel Networks, Inc., and Stellar Semiconductor, Inc. No comparable merger-related costs were incurred in the year-earlier period.

Interest and Other Income, Net. Interest and other income, net reflects interest earned on average cash, cash equivalents and investment balances, less interest on our long-term debt and capital lease obligations. Interest and other income, net for the three months ended March 31, 2000 was $3.4 million, an increase of $1.7 million as compared with $1.7 million in the three months ended March 31, 1999. The increase was principally due to higher cash balances available to invest resulting from cash generated by operations.

Provision for Income Taxes. Our effective tax rate was 20% for the three months ended March 31, 2000 and 35% for the three months ended March 31, 1999. The primary reasons for the reduction in our effective tax rate for the three months ended March 31, 2000 as compared with the prior period were increased research and development tax credits and benefits related to the tax rate differential on foreign earnings. For the three months ended March 31, 1999 our effective tax rate was increased by our inability to recognize the tax benefits of net operating losses incurred during that period by two subsidiaries acquired in May 1999.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have financed our operations through a combination of sales of equity securities and cash generated by operations. At March 31, 2000 we had $387.6 million in working capital, and $326.1 million in cash, cash equivalents and short-term investments. At December 31, 1999 we had $308.4 million in working capital, $265.7 million in cash, cash equivalents and short-term investments, and $9.4 million in long-term investments.

Operating activities provided cash in the amount of $7.3 million and $22.8 million in the three months ended March 31, 2000 and 1999 respectively. This was primarily the result of net income, the non-cash impact of depreciation and amortization, and an increase in accounts payable, partially offset by increases in accounts receivable, inventory, deferred tax assets, and prepaid expenses and other assets.

In the three months ended March 31, 2000, our investing activities used $6.9 million in cash for the purchase of capital equipment to support our expanding operations and provided $4.7 million in cash from the sale of held-to-maturity securities. In the three months ended March 31, 1999 our investing activities used $8.0 million in cash for the purchase of capital equipment and $15.3 million for the purchase of held-to-maturity investments.

Cash provided by financing activities was $50.7 million in the three months ended March 31, 2000, primarily from $27.5 million in tax benefits related to stock option exercises and $24.3 million in proceeds from the issuance of common stock, partially offset by $1.3 million in payments on long-term obligations of acquired companies. Financing activities provided cash of $18.6 million in the three months ended March 31, 1999, primarily from $7.0 million in tax benefits related to stock option exercises and $13.3 million in proceeds from the issuance of common stock, partially offset by $1.9 million in payments on long-term obligations of acquired companies.

We believe that our existing cash, cash equivalents and investments on hand, together with cash that we expect to generate from our operations, will be sufficient to meet our capital needs for at least the next twelve months. However, it is possible that we may need to raise additional funds to fund our activities beyond the next year or to consummate acquisitions of other businesses, products or technologies. We could raise such funds by selling more stock to the public or to selected investors, or by borrowing money. In addition, even though we may not need additional funds, we may still elect to sell additional equity securities or obtain credit facilities for other reasons. We may not be able to obtain additional funds on terms that would be favorable to our shareholders and us, or 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 the holders of our common stock.

We had commitments totaling approximately $4.6 million as of March 31, 2000 primarily for the purchase of engineering design tools, computer hardware and information systems infrastructure. During 1999 we spent $32.4 million on capital equipment to support our expanding operations. We expect that we will spend more than that amount during 2000 to purchase additional engineering design tools, computer hardware, test equipment, information systems and leasehold improvements, as our operations continue to expand and as we integrate and upgrade the capital equipment and facilities of acquired companies. We may finance these purchases from our cash and cash equivalents and investments on hand, cash generated from our operations, borrowings, equity offerings, or a combination thereof.

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

o the market acceptance of our products;

o the levels of promotion and advertising that will be required to launch our new products and achieve and maintain a competitive position in the marketplace;

o volume price discounts;

o our business, product, capital expenditure and research and development plans and product and technology roadmaps;

o the levels of inventory and accounts receivable that we maintain;

o capital improvements to new and existing facilities;

o technological advances;

o our competitors' response to our products; and

o our relationships with suppliers and customers.

In addition, we may require additional capital to accommodate planned growth, hiring, infrastructure and facility needs or to consummate acquisitions of other businesses, products or technologies.

YEAR 2000 COMPLIANCE

To date we have not experienced any known material Year 2000 problems in our products, our internal systems or facilities, or the products, systems and services of third parties. We will continue to monitor our mission critical computer applications and those of our suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly. We did not incur material costs to identify and address specific Year 2000 compliance issues. We could however incur additional costs in addressing any residual Year 2000 issues, which could have a material and adverse effect on our business.

RISK FACTORS

BEFORE DECIDING TO INVEST IN OUR COMPANY OR TO MAINTAIN OR INCREASE YOUR INVESTMENT, YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW, IN ADDITION TO THE OTHER INFORMATION CONTAINED IN THIS REPORT AND IN OUR OTHER FILINGS WITH THE SEC, INCLUDING OUR SUBSEQUENT REPORTS ON FORMS 10-Q AND 8-K. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING OUR COMPANY. ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO US OR THAT WE CURRENTLY DEEM IMMATERIAL MAY ALSO AFFECT OUR BUSINESS OPERATIONS. IF ANY OF THESE RISKS ACTUALLY OCCUR, THAT COULD SERIOUSLY HARM OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS. IN THAT EVENT, THE MARKET PRICE FOR OUR CLASS A COMMON STOCK COULD DECLINE AND YOU MAY LOSE ALL OR PART OF YOUR INVESTMENT.

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY. AS A RESULT, WE MAY FAIL TO MEET OR EXCEED THE EXPECTATIONS OF SECURITIES ANALYSTS AND INVESTORS, WHICH COULD CAUSE OUR STOCK PRICE TO DECLINE.

Our quarterly revenues and operating results have fluctuated significantly in the past and may 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 may be due to a number of factors, including the following:

o the volume of our product sales and pricing concessions on volume sales;

o the timing, rescheduling or cancellation of significant customer orders;

o the gain or loss of a key customer;

o the qualification, availability and pricing of competing products and technologies and the resulting effect on sales and pricing of our products;

o silicon wafer pricing and the availability of foundry and assembly capacity and raw materials;

o our ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a timely manner;

o the timing of customer-industry qualification and certification of our products and the risks of non-qualification or non-certification;

o the rate at which our present and future customers and end users adopt Broadcom technologies in our target markets;

o the rate of adoption and acceptance of new industry standards in our target markets;

o the effects of new and emerging technologies;

o intellectual property disputes and customer indemnification claims;

o the risks inherent in our acquisitions of technologies and businesses, including the timing and successful completion of technology and product development through volume production, integration issues, costs and unanticipated expenditures, changing relationships with customers, suppliers and strategic partners, potential contractual, intellectual property or employment issues, accounting treatment and charges, and the risks that the acquisition cannot be completed successfully or that anticipated benefits are not realized;

o the effectiveness of our product cost reduction efforts;

o fluctuations in the manufacturing yields of our semiconductor foundries and other problems or delays in the fabrication, assembly, testing or delivery of our products;

o the risks of producing products with new suppliers and at new fabrication and assembly facilities;

o the risks and uncertainties associated with our international operations;

o problems or delays that we may face in shifting our products to smaller geometry process technologies and in achieving higher levels of design integration;

o our ability to retain and hire key executives, technical personnel and other employees in the numbers, with the capabilities, and at the compensation levels that we need to implement our business and product plans;

o changes in our product or customer mix;

o the quality of our products and any remediation costs;

o the effects of natural disasters and other events beyond our control;

o the level of orders received that we can ship in a fiscal quarter;

o potential business disruptions, claims, expenses and other difficulties resulting from residual "Year 2000" problems in computer-based systems used by us, our suppliers or our customers;

o economic and market conditions in the semiconductor industry and the broadband communications markets; and

o general economic and market conditions.

We intend to continue to increase our operating expenses in 2000 and in the future. A large portion of our operating expenses, including rent, salaries and capital lease expenditures, is fixed and difficult to reduce or change. Accordingly, if our total revenue does not meet our expectations, we probably would not be able to adjust our expenses quickly enough to compensate for the shortfall in revenue. In that event, our business, financial condition and results of operations would be materially and adversely affected.

Due to all of the foregoing factors, and the other risks discussed in this report, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of future performance.

BECAUSE WE DEPEND ON A FEW SIGNIFICANT CUSTOMERS FOR A SUBSTANTIAL PORTION OF OUR REVENUES, THE LOSS OF A KEY CUSTOMER COULD SERIOUSLY 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.

We have derived a substantial portion of our revenues in the past 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 General Instrument (which was acquired by Motorola in January 2000), 3Com, and Cisco including sales to their respective manufacturing subcontractors, accounted for approximately 24.2%, 18.5% and 11.6%, respectively, of our revenue in the three months ended March 31, 2000. Sales to our five largest customers, including sales to their respective manufacturing subcontractors, decreased to approximately 64.6% of our revenue in the three months ended March 31, 2000 as compared to 81.6% in the three months ended March 31, 1999. We expect that our key customers will continue to account for a substantial portion of our revenues for 2000 and in the future. Accordingly, our future operating results will continue to depend on the success of our largest customers and on our ability to sell existing and new products to these customers in significant quantities.

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

o Most of our customers can stop incorporating our products into their own products with limited notice to us and suffer little or no penalty.

o Our agreements with our customers typically do not require them to purchase a minimum amount of our products.

o Many of our customers have pre-existing relationships with our current or potential competitors that may affect their decision to purchase our products.

o Our customers face intense competition from other manufacturers that do not use our products.

o Some of our customers offer or may offer products that compete with our products.

o Our longstanding relationships with some of our larger customers may also deter other potential customers who compete with these customers from buying our products.

In addition, in order to attract new customers or retain existing customers, we may offer certain customers favorable prices on our products. If these prices are lower than the prices paid by our existing customers, we would 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, a reduction in our sales to any key customer or our inability to attract new significant customers could materially and adversely affect our business, financial condition or results of operations.

WE FACE INTENSE COMPETITION IN THE BROADBAND COMMUNICATIONS MARKETS AND SEMICONDUCTOR INDUSTRY, WHICH COULD REDUCE OUR MARKET SHARE IN EXISTING MARKETS AND AFFECT OUR ENTRY INTO NEW MARKETS.

The broadband communications markets and semiconductor industry are intensely competitive. We expect competition to continue to increase in the future 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 in the markets for digital cable set-top boxes, cable modems, high-speed office networks, home networking, Voice over Internet Protocol (VoIP), residential broadband gateways, direct broadcast satellite and terrestrial digital satellite, and digital subscriber lines. This competition has resulted and may continue to result in declining average selling prices for our products. In all of our target markets, we also may face competition from newly established competitors and suppliers of products based on new or emerging technologies. We also 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. As a result, 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, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. Existing or new competitors may also develop technologies in the future that more effectively address the transmission of digital information through existing analog infrastructures or through new digital infrastructures at lower costs than our technologies. Increased competition has in the past and is likely to continue to result in price reductions, reduced gross margins and loss of market share. We cannot assure you that we will be able to continue to compete successfully or that competitive pressures will not materially and adversely affect our business, financial condition and results of operations.

OUR ACQUISITION STRATEGY MAY REQUIRE US TO UNDERTAKE SIGNIFICANT CAPITAL INFUSIONS, BE DILUTIVE TO OUR EXISTING SHAREHOLDERS, AND RESULT IN DIFFICULTIES IN ASSIMILATING AND INTEGRATING THE OPERATIONS, PERSONNEL, TECHNOLOGIES, PRODUCTS AND INFORMATION SYSTEMS OF ACQUIRED COMPANIES.

A key element of our business strategy involves expansion through the acquisition of businesses, 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. Since January 1999 we have acquired Maverick Networks, Epigram, Inc., Armedia, Inc., HotHaus Technologies Inc., AltoCom, Inc., Digital Furnace Corporation, BlueSteel Networks, Inc. and Stellar Semiconductor, Inc. We plan to continue to pursue acquisition opportunities in 2000 and in the future. 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 the acquired company. We may also encounter delays in the timing and successful completion of the acquired company's technology and product development through volume production, costs and unanticipated expenditures, changing relationships with customers, suppliers and strategic partners, or contractual, intellectual property or employment issues. In addition, the key personnel of the acquired company may decide not to work for us. 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 and increase our expenses. In addition, acquisitions may materially and adversely affect our results of operations because they may require large one-time write-offs, increased debt or contingent liabilities, substantial depreciation or deferred compensation charges or the amortization of expenses related to goodwill and other intangible assets. We may seek to account for acquisitions under the pooling-of-interests accounting method, but that method may not be available. Any of these events could cause the price of our Class A common stock to decline. Furthermore, if we issue equity or convertible debt securities in connection with an acquisition, as in the case of our recent acquisitions, the issuance 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 the holders of our common stock. Thus, for example, as a consequence of the pooling-of-interest rules, the securities issued in each of the eight acquisitions described above were Class B common stock, which has voting rights superior to 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 the benefits anticipated from these acquisitions. In the future, we may not be able to find other suitable acquisition opportunities that are available at attractive valuations. Even if we do find suitable acquisition opportunities, we may not be able to consummate the acquisitions on commercially acceptable terms. Moreover, due to our limited acquisition experience, it may be difficult for us to successfully integrate any acquired businesses, products, technologies or personnel, which could materially and adversely affect our business, financial condition and results of operations.

WE MUST KEEP PACE WITH RAPID TECHNOLOGICAL CHANGES IN THE SEMICONDUCTOR INDUSTRY AND BROADBAND COMMUNICATIONS MARKETS IN ORDER TO REMAIN COMPETITIVE.

Our future success will depend on our ability to anticipate and adapt to changes in technology and industry standards. We will also need to continue to develop and introduce new and enhanced products to meet our customers' changing demands. Substantially all of our product revenue in recent fiscal quarters has been derived from sales of products for the high-speed office network, digital cable set-top box and cable modem markets. These markets are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and short product life cycles. In addition, these markets continue to undergo rapid growth and consolidation. A significant slowdown in any of these markets or other broadband communications markets could materially and adversely affect our business, financial condition and results of operations. Our success will also depend on the ability of our customers to develop new products and enhance existing products for the broadband communications markets and to introduce and promote those products successfully. The broadband communications markets may not continue to develop to the extent or in the timeframes that we anticipate. If new markets do not develop as we anticipate, or if our products do not gain widespread acceptance in these markets, our business, financial condition and results of operations could be materially and adversely affected.

IF WE DO NOT ANTICIPATE AND ADAPT TO EVOLVING INDUSTRY STANDARDS IN THE SEMICONDUCTOR INDUSTRY AND BROADBAND COMMUNICATIONS MARKETS, OUR PRODUCTS COULD BECOME OBSOLETE AND WE COULD LOSE MARKET SHARE.

Products for broadband communications applications generally are based on industry standards that are continually evolving. If new industry standards emerge, our products or our customers' products could become unmarketable or obsolete. We may also have to incur substantial unanticipated costs to comply with these new standards. 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. 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. We have in the past invested substantial resources in emerging technologies that did not achieve the market acceptance that we had expected. Our inability to anticipate the evolving standards in the semiconductor industry and, in particular the broadband communications markets, or to develop and introduce new products successfully into these markets could materially and adversely affect our business, financial condition and results of operations.

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 will depend on our ability to develop new silicon solutions 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 quarterly results in the past have been, and are expected in the future to 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. Our ability to develop and deliver new products successfully will depend on various factors, including our ability to:

o accurately predict market requirements and evolving industry standards;

o accurately define new products;

o timely complete and introduce new product designs;

o timely qualify and obtain industry interoperability certification of our products and our customers' products into which our products will be incorporated;

o obtain sufficient foundry capacity;

o achieve high manufacturing yields; and

o gain market acceptance of our products and our customers' products.

If we are not able to develop and introduce new products successfully and in a cost-effective and timely manner, our business, financial condition and results of operations would be materially and adversely affected.

Our new products generally are incorporated into our customers' products at the design stage. We have often incurred 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. The value of our products largely depends on the commercial success of our customers' products and on the extent to which those products accommodate components manufactured by our competitors. We cannot assure you that we will continue to achieve design wins. In addition, the equipment that incorporates our products may never become commercially successful.

WE DEPEND ON TWO INDEPENDENT FOUNDRIES TO MANUFACTURE SUBSTANTIALLY ALL OF OUR CURRENT PRODUCTS, AND ANY FAILURE TO OBTAIN SUFFICIENT FOUNDRY CAPACITY COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS.

We do not own or operate a fabrication facility. Two outside foundries, Taiwan Semiconductor Manufacturing Corporation, or TSMC, in Taiwan and Chartered Semiconductor Manufacturing, or Chartered, in Singapore, currently manufacture substantially all of our semiconductor devices in current production. In September 1999 TSMC's principal facility was affected by a significant earthquake in Taiwan. As a consequence of this earthquake, TSMC suffered power outages and equipment damage that impaired TSMC's wafer deliveries and, together with strong demand, could result in wafer shortages and higher wafer pricing industrywide.

Because we rely on outside foundries with limited capacity, we face several significant risks, including:

o a lack of ensured wafer supply and potential wafer shortages and higher wafer prices;

o limited control over delivery schedules, quality assurance and control, manufacturing yields and production costs; and

o the unavailability of or potential delays in obtaining access to key process technologies.

In addition, 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.

The ability of each foundry to provide us with semiconductor devices is limited by its available capacity. Although we have entered into contractual commitments to supply specified levels of products to certain of our customers, we do not have a long-term volume purchase agreement or a guaranteed level of production capacity with either TSMC or Chartered. Foundry capacity may not be available when we need it or at reasonable prices. Availability of foundry capacity has recently been reduced due to strong demand. We place our orders on the basis of our customers' purchase orders, and TSMC and Chartered 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 TSMC or Chartered, may induce our foundries to reallocate capacity to them. Such a reallocation could impair our ability to secure the supply of components that we need. Although we primarily use two independent foundries, most of our components are not manufactured at both foundries at any given time and some of our products may be designed to be manufactured at only one. Accordingly, if one of our foundries is unable to provide us with components as needed, we could experience significant delays in securing sufficient supplies of those components. Any of these delays would likely materially and adversely affect our business, financial condition and results of operations. In addition, if either TSMC or Chartered experiences financial difficulties, if either foundry suffers any damage to its facilities or in the event of any other disruption of foundry capacity, we may not be able to qualify an alternative foundry in a timely manner. Even our current foundries would need to have new manufacturing processes qualified if there is a disruption in an existing process. If we choose to use a new foundry or process, it would typically take us several months to qualify the new foundry or process before we can begin shipping products from it. If we cannot accomplish this qualification in a timely manner, we may still experience a significant interruption in supply of the affected products. We cannot assure you that any of our existing or new foundries would be able to produce integrated circuits with acceptable manufacturing yields. Furthermore, our foundries may not be able to deliver enough semiconductor devices to us on a timely basis, or at reasonable prices.

Certain of our acquired companies have established relationships with foundries other than TSMC and

Chartered, and we are using these other foundries to produce the initial products of these acquired companies. We may utilize such foundries for other products in the future. In using these new foundries, we will be subject to all of the same risks described in the foregoing paragraphs with respect to TSMC and Chartered.

WE MAY BE UNABLE TO RETAIN KEY TECHNICAL AND SENIOR MANAGEMENT PERSONNEL AND ATTRACT ADDITIONAL KEY EMPLOYEES, WHICH COULD SERIOUSLY HARM OUR BUSINESS.

Our future success depends to a significant extent upon the continued service of our key technical and senior management personnel, in particular, our co-founder, President and Chief Executive Officer, Dr. Henry T. Nicholas III, and our co-founder, Vice President of Research & Development and Chief Technical Officer, Dr. Henry Samueli. We do not have employment agreements with these executives or any other key employees that govern the length of their service. The loss of the services of Dr. Nicholas or Dr. Samueli, or certain other key employees, would likely materially and adversely affect our business, financial condition and results of operations. Our future success also depends on our ability to continue to attract, retain and motivate qualified personnel, particularly digital circuit designers, mixed-signal circuit designers and systems applications engineers. Competition for these employees is intense. Our inability to attract and retain additional key employees could have an adverse effect on our business, financial condition and results of operations.

OUR INABILITY TO MANAGE OUR SIGNIFICANT RECENT AND ANTICIPATED FUTURE GROWTH COULD STRAIN OUR MANAGERIAL, OPERATIONAL AND FINANCIAL RESOURCES, AND COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS.

During the past year, we have continued to significantly increase the scope of our operations and expand our workforce, growing from 708 employees in March 31, 1999 to 1,213 employees as of March 31, 2000, including contract and temporary employees and employees who joined us as the result of acquisitions. This growth has placed, and our anticipated future growth of operations is expected to continue to place, a significant strain on our management personnel, systems and resources. We anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the ongoing improvement of our accounting and other internal management systems. We also will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort. In the future, we may need to expand our facilities or relocate some or all of our employees or operations from time to time to support our growth. These 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 expanding operations, our business, financial condition and results of operations could be materially and adversely affected.

THE LOSS OF ANY OF THE THREE THIRD-PARTY SUBCONTRACTORS THAT ASSEMBLE AND TEST SUBSTANTIALLY ALL OF OUR CURRENT PRODUCTS COULD DISRUPT OUR SHIPMENTS, HARM OUR CUSTOMER RELATIONSHIPS AND ADVERSELY AFFECT OUR NET SALES.

Three third-party subcontractors, ASAT Ltd. in Hong Kong, ST Assembly Test Services, STATS, in Singapore, and Amkor Technology in the Philippines and South Korea, assemble and test almost all of our current products. Because we rely on third-party subcontractors to assemble and test our products, we cannot directly control our product delivery schedules and quality assurance and control. This lack of control has in the past, and could in the future, result in product shortages or quality assurance problems that could increase our manufacturing, assembly or testing costs. We do not have long-term agreements with ASAT, STATS or Amkor. We typically procure services from these suppliers on a per order basis. If either ASAT, STATS or Amkor experiences capacity constraints or financial difficulties, if any subcontractor suffers any damage to its facilities or in the event of any other disruption of assembly and testing capacity, we may not be able to obtain alternative assembly and testing services in a timely manner. Due to the amount of time that it usually takes us 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 materially and adversely affect our business, financial condition or results of operations.

We are continuing to develop relationships with additional third-party subcontractors to assemble and test our products. In using these new subcontractors, we will be subject to all of the same risks described in the foregoing paragraph with respect to ASAT, STATS and Amkor.

AS OUR INTERNATIONAL BUSINESS EXPANDS, OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS COULD BE ADVERSELY AFFECTED AS A RESULT OF LEGAL, BUSINESS AND ECONOMIC RISKS SPECIFIC TO INTERNATIONAL OPERATIONS.

We currently obtain substantially all of our manufacturing, assembly and testing services from suppliers located outside of the United States. In addition, approximately 19.4% of our revenue in the three months ended March 31, 2000 was derived from sales to independent customers outside the United States. We also frequently ship products to our domestic customers' international manufacturing divisions and subcontractors. In 1999 we established an international distribution center in Singapore and a design center in The Netherlands. As a result of our acquisition of HotHaus in August 1999, we now undertake design, development and marketing activities in Canada. Furthermore, as a result of our acquisition of Armedia in May 1999, we also undertake design and development activities in India. In the future, we intend to continue to expand these international business activities and also to open other design and operational centers abroad. International operations are subject to many inherent risks, including:

o political, social and economic instability;

o trade restrictions;

o the imposition of governmental controls;

o exposure to different legal standards, particularly with respect to intellectual property;

o burdens of complying with a variety of foreign laws;

o import and export license requirements and restrictions of the United States and each other country in which we operate;

o unexpected changes in regulatory requirements;

o foreign technical standards;

o changes in tariffs;

o difficulties in staffing and managing international operations;

o fluctuations in currency exchange rates;

o difficulties in collecting receivables from foreign entities; and

o potentially adverse tax consequences.

VARIOUS EXPORT LICENSING REQUIREMENTS, THE SEASONALITY OF INTERNATIONAL SALES OR AN INCREASE IN THE VALUE OF THE U.S. DOLLAR RELATIVE TO FOREIGN CURRENCIES COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS OR REQUIRE US TO MODIFY OUR CURRENT BUSINESS PRACTICES SIGNIFICANTLY.

Various government export regulations apply to the encryption or other features contained in some of our products. We have applied for and received several export licenses under these regulations, but we cannot assure you that we will obtain any licenses for which we have currently applied or any licenses that we may apply for in the future. If we do not receive the required licenses, we may be unable to manufacture the affected products at our foreign foundries or to ship these products to certain customers located outside the United States. Moreover, the seasonality of international sales and economic conditions in our primary overseas markets 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. Any one or more of the foregoing factors could materially and adversely affect our business, financial condition or results of operations or require us to modify our current business practices significantly. We anticipate that these factors will impact our business to a greater degree as we further expand our international business activities.

OUR FUTURE SUCCESS DEPENDS IN SIGNIFICANT PART ON STRATEGIC RELATIONSHIPS WITH CERTAIN OF OUR CUSTOMERS. IF WE CANNOT MAINTAIN THESE RELATIONSHIPS OR IF THESE CUSTOMERS DEVELOP THEIR OWN SOLUTIONS OR ADOPT A COMPETITOR'S SOLUTIONS INSTEAD OF BUYING OUR PRODUCTS, OUR OPERATING RESULTS WOULD BE ADVERSELY AFFECTED.

In the past, we have relied on our strategic relationships with certain customers who are technology leaders in our target markets. We intend to pursue and continue to form these strategic relationships in the future. These relationships often require us to develop new products that typically involve significant technological challenges. Our partners frequently place considerable pressure on us to meet their tight development schedules. Accordingly, we may have to devote a substantial amount of our limited resources to our strategic relationships, which could detract from or delay our completion of other important development projects. Delays in development could impair our relationships with our strategic partners and negatively impact sales of the products under development. Moreover, it is possible that our customers may develop their own solutions or adopt a competitor's solution for products that they currently buy from us. If that happens, our business, financial condition and results of operations could be materially and adversely affected.

WE MAY EXPERIENCE DIFFICULTIES IN TRANSITIONING TO SMALLER GEOMETRY PROCESS TECHNOLOGIES OR IN ACHIEVING HIGHER LEVELS OF DESIGN INTEGRATION AND THAT MAY RESULT IN REDUCED MANUFACTURING YIELDS, DELAYS IN PRODUCT DELIVERIES AND INCREASED EXPENSES.

In order to remain competitive, we expect to transition our products to increasingly smaller geometries. This transition will require us to redesign certain products and modify the manufacturing processes for our products. We continually evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies in order to reduce our costs, and we have begun shifting certain products from .50 micron to .35 micron, .22 micron and smaller geometry processes. In the past, we have experienced some difficulties in shifting to smaller geometry process technologies or new manufacturing processes. These difficulties resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. 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 foundries to transition to smaller geometry processes successfully. We cannot assure you that our foundries will be able to effectively manage the transition or that we will be able to maintain our relationships with our foundries. If our foundries or we experience significant delays in this transition or fail to efficiently implement this transition, our business, financial condition and results of operations could be materially and adversely affected. As smaller geometry processes become more prevalent, we expect 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, or at all.

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 certain of our competitors or other parties may obtain, use or disclose our technologies and processes. We currently hold 11 issued United States patents and have filed over 250 United States patent applications. 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. Moreover, any rights granted under these patents may not provide us with meaningful protection. If our patents do not adequately protect our technology, then 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. Moreover, because we have participated in developing various industry standards, we may be required to license some of our technology and patents to others, including competitors, who develop products based on the adopted standards.

We generally enter into confidentiality agreements with our employees and strategic partners. We also try to control access to and distribution of our technologies, documentation and other proprietary information. Despite these efforts, parties may attempt to copy, disclose, obtain or use our products, services or technology without our authorization. As a result, our technologies and processes may be misappropriated, particularly in foreign 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 ever fail to fulfill our obligations under those agreements, including product supply obligations, and do not correct this failure within a specified time period. Moreover, we often incorporate the intellectual property of our 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. In the future, we may have to engage in litigation to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others, including our customers. This litigation may be very expensive, divert management's attention and materially and adversely affect our business, financial condition and results of operations.

INFRINGEMENT 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.

Companies in the semiconductor industry often aggressively protect and pursue their intellectual property rights. From time to time, we have received, and may continue to receive in the future, notices that claim we have infringed upon, misappropriated or misused other parties' proprietary rights. In March 2000 Intel Corporation and its subsidiary Level One Communications, Inc. filed a lawsuit against us alleging misappropriation of trade secrets, unfair competition and tortious interference with existing contractual relations related to our recent hiring of three former Intel employees. In 1999 we settled litigation with Stanford Telecommunications, Inc. that related to the alleged infringement of one of Stanford's patents by several of our cable modem products. In 1999 we prevailed in litigation with Sarnoff Corporation and NxtWave Communications, Inc., formerly Sarnoff Digital Communications, Inc., which alleged that we misappropriated and misused certain of their trade secrets in connection with our hiring of five former Sarnoff employees. Our subsidiary, AltoCom, is the defendant in patent litigation brought by Motorola, Inc. relating to software modem technology. Although we are defending the pending litigation vigorously, it is possible that we will not prevail in pending or future lawsuits. In addition, we may be sued in the future by other parties who claim that we have infringed their patents or misappropriated or misused their trade secrets, or who may seek to invalidate one of our patents. Any of these claims 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 an injunction against us that would require us to withdraw or recall certain products from the market or redesign certain products offered for sale or under development. In addition, we may be liable for damages for past infringement and royalties for future use of the technology. We may also have to indemnify certain customers and strategic partners under our agreements with such parties if a third party alleges or if a court finds that we have infringed upon, misappropriated or misused another party's proprietary rights. Even if claims against us are not valid or successfully asserted, these claims could result in significant costs and a diversion of management and personnel resources to defend. In that event, our business, financial condition and results of operations would likely be materially and adversely affected. If any claims or actions are asserted against us, we may seek to obtain a license under a third party's intellectual property rights. However, we may not be able to obtain a license on commercially reasonable terms, if at all.

OUR PRODUCTS TYPICALLY HAVE LENGTHY SALES CYCLES. A CUSTOMER MAY DECIDE TO CANCEL OR CHANGE ITS PRODUCT PLANS, WHICH COULD CAUSE US TO LOSE ANTICIPATED SALES. IN ADDITION, OUR AVERAGE PRODUCT CYCLES TEND TO BE SHORT AND, AS A RESULT, WE MAY HOLD EXCESS OR OBSOLETE INVENTORY WHICH COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

After we have developed and delivered a product to a customer, our customer will often test and evaluate our product prior to designing its own equipment to incorporate our product. Our customer may need three to six months or longer to test and evaluate our product and an additional three to six months or more to begin volume production of equipment that incorporates our product. Due to this lengthy sales cycle, we may experience delays from the time we increase our operating expenses and our investments in inventory until the time that we generate revenues for these products. It is possible that we may never generate any revenues from these products after incurring such expenditures. Even if a customer selects our product to incorporate into its equipment, we have no assurances that such customer will ultimately market and sell their equipment or that such efforts 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 change its product plans. Such a cancellation or change in plans by a customer could cause us to lose sales that we had anticipated. In addition, our business, financial condition and results of operations could be materially and adversely affected if a significant customer curtails, reduces or delays orders during our sales cycle or chooses not to release equipment that contains our products.

While our sales cycles are typically long, our average product life cycles tend to be short as a result of the rapidly changing technology environment in which we operate. As a result, the resources devoted to product sales and marketing may not generate material revenues for us, and from time to time, we may need to write off excess and obsolete inventory. If we incur significant marketing and inventory expenses in the future that we are not able to recover, and we are not able to compensate for those expenses, our operating results could be adversely affected. In addition, if we sell our products at reduced prices in anticipation of cost reductions, and we still have higher cost products in inventory, our operating results would be harmed.

BECAUSE WE ARE SUBJECT TO ORDER AND SHIPMENT UNCERTAINTIES, ANY SIGNIFICANT CANCELLATIONS OR DEFERRALS COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

We typically sell products pursuant to purchase orders that customers can generally cancel or defer on short notice without incurring a significant penalty. Any significant cancellations or deferrals could materially and adversely affect our business, financial condition and results of operations. In addition, cancellations or deferrals could cause us to hold excess inventory, which could reduce our profit margins and restrict our ability to fund our operations. We 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, we could incur significant charges against our income. These charges could materially and adversely affect our operating results.

THE COMPLEXITY OF OUR PRODUCTS COULD RESULT IN UNFORESEEN DELAYS OR EXPENSES AND IN UNDETECTED DEFECTS OR BUGS, WHICH COULD ADVERSELY AFFECT THE MARKET ACCEPTANCE OF NEW PRODUCTS AND DAMAGE OUR REPUTATION WITH CURRENT OR PROSPECTIVE CUSTOMERS.

Highly complex products such as the products that we offer frequently contain defects and bugs when they are first introduced or as new versions are released. We have in the past experienced, and may in the future experience, these defects and bugs. If any of our products contain defects or bugs, or have 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 or attract new customers. In addition, these defects or bugs could interrupt or delay sales to our customers. In order to alleviate these problems, we may have to invest significant capital and other resources. Although our products are tested by our suppliers, our customers and ourselves, we cannot assure you that our new products will not contain defects or bugs. If any of these problems are not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others. In addition, these problems may divert our technical and other resources from other development efforts. Moreover, we would likely lose, or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers.

OUR OPERATING RESULTS MAY VARY SIGNIFICANTLY DUE TO THE CYCLICALITY OF THE SEMICONDUCTOR INDUSTRY. ANY SUCH VARIATIONS COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

We operate in the semiconductor industry, which is cyclical and subject to rapid technological change. From time to time, the semiconductor industry has experienced significant economic downturns, characterized by diminished product demand, accelerated erosion of prices and excess production capacity. This industry also periodically experiences increased demand and production capacity constraints. Accordingly, our quarterly results may vary significantly as a result of the general conditions in the semiconductor industry.

OUR CALIFORNIA FACILITIES AND THE FACILITIES OF ONE OF THE TWO INDEPENDENT FOUNDRIES UPON WHICH WE RELY TO MANUFACTURE SUBSTANTIALLY ALL OF OUR CURRENT PRODUCTS ARE LOCATED IN REGIONS THAT ARE SUBJECT TO EARTHQUAKES AND OTHER NATURAL DISASTERS.

Our California facilities, including our principal executive offices, are located near major earthquake fault lines. If there is a major earthquake or any other natural disaster in a region where one of our facilities is located, our business could be materially and adversely affected. In addition, TSMC, one of the two outside foundries upon which we rely to manufacture substantially all of our semiconductor devices, is located in Taiwan, a country that is also subject to earthquakes. Any earthquake or other natural disaster in Taiwan could materially disrupt TSMC's production capabilities and could result in our experiencing a significant delay in delivery, or substantial shortage, of wafers and possibly in higher wafer prices.

CHANGES IN CURRENT OR FUTURE LAWS OR REGULATIONS OR THE IMPOSITION OF NEW LAWS OR REGULATIONS BY THE FCC, OTHER FEDERAL OR STATE AGENCIES OR FOREIGN GOVERNMENTS COULD IMPEDE THE SALE OF OUR PRODUCTS OR OTHERWISE HARM OUR BUSINESS.

The Federal Communications Commission has broad jurisdiction over each of our target markets. 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. As a result, the effects of regulation on our customers or the industries in which they operate may, in turn, materially and adversely impact our business, financial condition and results of operations. FCC regulatory policies that affect the ability of cable operators or telephone companies to offer certain services or other aspects of their business may impede the sale of our products. For example, in the past we have experienced delays when products incorporating our chips failed to comply with FCC emissions specifications. 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. Changes in current laws or regulations or the imposition of new laws and regulations in the United States or elsewhere could also materially and adversely affect our business.

CERTAIN OF OUR DIRECTORS, EXECUTIVE OFFICERS 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 April 30, 2000 our directors and executive officers beneficially owned approximately 34.2% of our outstanding common stock and 68.2% of the total voting control held by our shareholders. In particular, as of April 30, 2000 our two founders, Dr. Henry T. Nicholas III and Dr. Henry Samueli, beneficially owned a total of approximately 32.5% of our outstanding common stock and 65.4% of the total voting control 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 a majority of our Board of Directors, the issuance of additional shares of Class B common stock, and the approval of any significant corporate transaction, including a merger, consolidation or sale of substantially all of our assets. In addition, these insiders currently also control the management of our business. Because of their significant stock ownership, we will not be able to engage in certain transactions without the approval of these shareholders. These transactions include proxy contests, mergers, tender offers, open market purchase programs or other purchases of our Class A common stock that could give our shareholders the opportunity to receive a higher price for their shares than the prevailing market price at the time of such purchases.

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. Since our initial public offering in April 1998, our Class A common stock has traded at prices as low as $11.75 and as high as $253.00 per share. These fluctuations have occurred and may continue to occur in response to various factors, many of which we cannot control, including:

o quarter-to-quarter variations in our operating results;

o announcements of technological innovations or new products by our competitors, customers or us;

o general conditions in the semiconductor industry and telecommunications and data communications equipment markets;

o changes in earnings estimates or investment recommendations by analysts;

o changes in investor perceptions; or

o 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 and other high technology companies have been especially 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, companies that have experienced volatility in the market price of their securities have been the subject of securities class action litigation. If we were the object of a securities class action litigation, it could result in substantial losses and divert management's attention and resources from other matters.

OUR PRODUCTS AND INTERNAL INFORMATION SYSTEMS AND THE PRODUCTS AND SYSTEMS OF OUR CUSTOMERS AND THE THIRD PARTY SUPPLIERS WHO FABRICATE, TEST AND ASSEMBLE OUR PRODUCTS MAY BE NEGATIVELY IMPACTED BY YEAR 2000 COMPLIANCE PROBLEMS.

Many existing computer systems, software applications and embedded computer chips, software and firmware in control devices use only two digits to identify a year in the date field. These systems, applications and control devices need to accept four digit entries to distinguish 21st Century dates from 20th Century dates. In addition, they may not correctly process "leap year" dates or may fail to recognize February 29, 2000 as a leap year date as a result of an exception to the calculation of leap years that will occur in the Year 2000 and otherwise occurs only once every 400 years. As a result, these systems and applications had to be upgraded to comply with the Year 2000 requirements or risk system failure, miscalculations or other disruptions to normal business activities.

To date we have not experienced any known material Year 2000 problems in our products, our internal systems or facilities, or the products, systems and services of third parties. We will continue to monitor our mission critical computer applications and those of our suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly. We did not incur material costs to identify and address specific Year 2000 compliance issues. We could however incur additional costs in addressing any residual Year 2000 issues, which could have a material and adverse effect on our business.

WE MAY NEED TO RAISE ADDITIONAL CAPITAL IN THE FUTURE THROUGH THE ISSUANCE OF ADDITIONAL EQUITY OR CONVERTIBLE DEBT SECURITIES OR BY BORROWING MONEY, AND ADDITIONAL FUNDS MAY NOT BE AVAILABLE ON TERMS ACCEPTABLE TO US.

We believe that our existing cash, cash equivalents and investments on hand, together with cash that we expect to generate from our operations, will be sufficient to meet our capital needs for at least the next twelve months. However, it is possible that we may need to raise additional funds to fund our activities beyond the next year or to consummate acquisitions of other businesses, products or technologies. We could raise these funds by selling more stock to the public or to selected investors, or by borrowing money. In addition, even though we may not need additional funds, we may still elect to sell additional equity securities or obtain credit facilities for other reasons. We may not be able to obtain additional funds on favorable terms, or at all. If adequate funds are not available, we may be required to curtail our operations significantly or to obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain technologies or potential markets. 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 the holders of our common stock.

It is possible that our future capital requirements may vary materially from those now planned. The amount of capital that we will need in the future will depend on many factors, including:

o the market acceptance of our products;

o the levels of promotion and advertising that will be required to launch our new products and achieve and maintain a competitive position in the marketplace;

o volume price discounts;

o our business, product, capital expenditure and research and development plans and product and technology roadmaps;

o the levels of inventory and accounts receivable that we maintain;

o capital improvements to new and existing facilities;

o technological advances;

o our competitors' response to our products; and

o our relationships with suppliers and customers.

In addition, we may require additional capital to accommodate planned growth, hiring, infrastructure and facility needs or to consummate acquisitions of other businesses, products or technologies.

OUR ARTICLES OF INCORPORATION AND BYLAWS CONTAIN ANTI-TAKEOVER PROVISIONS THAT COULD ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

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 will 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 with one vote per share in the case of our publicly-held Class A common stock). Our Board of Directors also has the authority to fix the rights and preferences of shares of our preferred stock and to issue such shares without a shareholder vote. It is possible that the provisions in our charter documents, the existence of supervoting rights by holders of our Class B common stock, our officers' ownership of a majority of the Class B common stock and the ability of our Board of Directors to issue preferred stock may prevent parties from acquiring us. In addition, these factors may discourage third parties from bidding for our Class A common stock at a premium over the market price for this stock. Finally, these factors may also materially and adversely affect the market price of our Class A common stock, and the voting and other rights of the holders of our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to the section titled Quantitative and Qualitative Disclosures about Market Risk, in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, filed with the SEC on March 30, 2000.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In July 1997 the Company commenced an action against Sarnoff Corporation and Sarnoff Digital Communications, Inc., now known as NxtWave Communications, Inc. (collectively, "Sarnoff") in the California Superior Court alleging breach of contract, fraud, misappropriation of trade secrets, false advertising, trade libel, intentional interference with prospective economic advantage and unfair competition. The claims center on Sarnoff's violation of a non-disclosure agreement entered into with the Company with respect to limited use of certain of the Company's technology and on inaccurate comparisons that the Company believes Sarnoff has made in its product advertising and in statements to potential customers and others. This action was removed to the United States District Court for the Central District of California, and was stayed pending resolution of an action Sarnoff had brought against the Company in April 1997 in New Jersey Superior Court. Following the decision in the New Jersey action in the Company's favor in early 1999, Sarnoff filed a motion for summary judgment in the California case on the basis that the issues therein had been or should have been previously litigated in the New Jersey action under the New Jersey "entire controversy" doctrine. Following oral argument in August 1999, the District Court granted Sarnoff's motion and dismissed the Company's claims on the grounds that they should have been brought as part of the New Jersey action. The Company believes that the California action involves facts, circumstances and claims unrelated to those at issue in the New Jersey action, and has filed an appeal of the District Court's ruling. The Company filed its opening brief in the Ninth Circuit Court of Appeals in March 2000. On May 8, 2000, Sarnoff filed its opposing brief, and the Company will submit its reply brief shortly.

In March 2000 Intel Corporation and its subsidiary Level One Communications, Inc. (collectively, "Intel") filed a complaint in California Superior Court asserting claims against the Company for misappropriation of trade secrets, unfair competition, and tortious interference with existing contractual relations by the Company in connection with its recent hiring of three former Intel employees. The complaint sought injunctive relief, an accounting, damages, exemplary damages and attorneys' fees. Intel filed a first amended complaint on April 28, 2000 seeking additional relief and containing certain additional allegations, but asserting the same causes of action as the original complaint. The litigation is in its early stages. A preliminary injunction hearing in the matter is expected to conclude on or about May 24, 2000. The Company has denied any wrongdoing or liability and has instructed its attorneys to vigorously defend the action.

In September 1998 Motorola, Inc. ("Motorola") filed a complaint in United States District Court for the District of Massachusetts against AltoCom, Inc. ("AltoCom") (and co-defendant, PC-Tel, Inc.), asserting that (i) AltoCom's V.34 and V.90 compliant software modem technology infringes several patents owned by Motorola, (ii) AltoCom induces its V.34 and V.90 licensees to infringe such patents, and (iii) AltoCom contributorily infringes such patents. The complaint sought a preliminary and permanent injunction against AltoCom as well as the recovery of monetary damages, including treble damages for willful infringement. In October 1998 Motorola affirmatively dismissed its case in the District of Massachusetts and filed a substantially similar complaint in the United States District Court for the District of Delaware. AltoCom has filed an answer and affirmative defenses to the District of Delaware complaint. AltoCom has also asserted a counterclaim requesting declaratory relief that AltoCom has not infringed the Motorola patents and that such patents are invalid and/or unenforceable as well as a counterclaim requesting declaratory and injunctive relief based on breach of contract theory. AltoCom believes that it has strong defenses to Motorola's claims on invalidity, noninfringement and inequitable conduct grounds. In May 2000 Motorola filed an amended complaint alleging that AltoCom's technology infringes an additional Motorola patent. The parties are currently engaged in discovery in the action. A hearing on patent claims construction is scheduled to commence in December 2000 and a three-week trial is scheduled to begin in June 2001. AltoCom became a subsidiary of the Company on August 31, 1999. In September 1999 PC-Tel, Inc., the co-defendant in the case, reached a settlement with Motorola.

Although AltoCom believes that it has strong defenses and is defending the action vigorously, a finding of infringement by AltoCom as to at least one of the patents in this action could lead to liability for monetary damages (which could be trebled in the event that the infringement were found to have been willful), the issuance of an injunction requiring that AltoCom withdraw various products from the market, and indemnification claims by AltoCom's customers or strategic partners, each of which events could have a material adverse effect on AltoCom's, and possibly the Company's, business, results of operations and financial condition.

The Company and its subsidiaries are also involved in other legal proceedings, claims and litigation arising in the ordinary course of business.

The pending lawsuits involve complex questions of fact and law and could require the expenditure of significant costs and diversion of resources to defend. Although management currently believes the outcome of outstanding legal proceedings, claims and litigation will not have a material adverse effect on the Company's business, results of operations or financial condition, the results of litigation are inherently uncertain, and an adverse outcome is at least reasonably possible. The Company is unable to estimate the range of possible loss from outstanding litigation, and no amounts have been provided for such matters in the accompanying consolidated financial statements.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(d) Use of Proceeds from Sales of Registered Securities. On April 21, 1998, the Company completed an initial public offering (the "Offering") of its Class A common stock, $0.0001 par value. The shares of Class A common stock sold in the Offering were registered under the Securities Act of 1993, as amended, on a Registration Statement on Form S-1 (the "Registration Statement") (Reg. No. 333-45619) that was declared effective by the SEC on April 16, 1998. Of the total shares sold, 12,480,000 shares were sold by the Company (including 1,420,000 shares sold pursuant to the exercise of the Underwriters' over-allotment option), 3,620,000 shares were sold by selling shareholders (including 680,000 shares sold pursuant to the exercise of the Underwriters' over-allotment option) and 2,000,000 shares were sold by the Company to Cisco Systems in a concurrent registered offering that was not underwritten. The purchase price for the underwritten shares was $6.00 per share and the purchase price of the shares sold to Cisco Systems was $5.58 per share. The aggregate price of the Offering amount registered was approximately $107.8 million.

In connection with the Offering, the Company paid an aggregate of approximately $5.2 million in underwriting discounts and commissions and paid other expenses of approximately $1.6 million. After deducting the underwriting discounts and commissions and other expenses, the Company received net aggregate proceeds from the Offering and sale of shares to Cisco Systems of approximately $79.2 million. Through March 31, 2000, the Company has used all of the proceeds for repayment of debt, purchase of capital equipment, lease of engineering design tools, payment of merger-related costs and for payment of litigation settlement costs. None of the Company's net proceeds of the Offering were paid directly or indirectly to any director, officer, general partner of the Company or their associates, persons owning 10 percent or more of any class of equity securities of the Company, or an affiliate of the Company.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 -- Financial Data Schedule

(b) Reports on Form 8-K

On February 1, 2000 the Company filed a report on Form 8-K relating to its agreement to acquire BlueSteel Networks, Inc.

On February 29, 2000 the Company filed a report on Form 8-K relating to its agreement to acquire Digital Furnace Corporation.

On March 6, 2000 the Company filed a report on Form 8-K relating to its acquisition of Stellar Semiconductor, Inc. and the completion of its acquisitions of BlueSteel Networks, Inc. and Digital Furnace Corporation.

On March 24, 2000 the Company filed a report on Form 8-K to provide selected unaudited pro forma combined financial data giving effect to the business combinations between the Company and Digital Furnace Corporation, BlueSteel Networks, Inc., and Stellar Semiconductor, Inc.

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)

May 15, 2000	*/s/ WILLIAM J. RUEHLE*
	William J. Ruehle *Vice President and Chief Financial Officer* *(principal financial and accounting officer)*

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
27.1	Financial Data Schedule

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 01 2000
PERIOD END	MAR 31 2000
CASH	235,214
SECURITIES	90,902
RECEIVABLES	99,369
ALLOWANCES	7,853
INVENTORY	30,991
CURRENT ASSETS	479,040
PP&E	81,027
DEPRECIATION	29,953
TOTAL ASSETS	749,037
CURRENT LIABILITIES	91,440
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	21
OTHER SE	657,181
TOTAL LIABILITY AND EQUITY	749,037
SALES	191,347
TOTAL REVENUES	191,347
CGS	78,992
TOTAL COSTS	78,992
OTHER EXPENSES	63,519
LOSS PROVISION	0
INTEREST EXPENSE	(3,418)
INCOME PRETAX	52,254
INCOME TAX	10,451
INCOME CONTINUING	41,803
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	41,803
EPS BASIC	.20
EPS DILUTED	.17

End of Filing