

# BROADCOM CORP

## FORM 10-Q (Quarterly Report)

Filed 04/24/08 for the Period Ending 03/31/08

Address	5300 CALIFORNIA AVENUE IRVINE, CA 92617-3038
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CIK	0001054374
Symbol	BRCM
SIC Code	3674 - Semiconductors and Related Devices
Industry	Semiconductors
Sector	Technology
Fiscal Year	12/31

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

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Form 10-Q

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

For the quarterly period ended March 31, 2008

or

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

For the transition period from        to

Commission file number: 000-23993



**Broadcom Corporation**

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

**California**

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

**33-0480482**

*(I.R.S. Employer  
Identification No.)*

**5300 California Avenue**

**Irvine, California 92617-3038**

*(Address of Principal Executive Offices) (Zip Code)*

**(949) 926-5000**

*(Registrant's telephone number, including area code)*

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

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

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

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

As of March 31, 2008 the registrant had 452.2 million shares of Class A common stock, \$0.0001 par value, and 67.7 million shares of Class B common stock, \$0.0001 par value, outstanding.

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**BROADCOM CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008**

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
(In thousands)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,001,269	\$ 2,186,572
Short-term marketable securities	90,033	141,728
Accounts receivable, net	362,436	369,004
Inventory	221,402	231,313
Prepaid expenses and other current assets	125,413	125,663
Total current assets	2,800,553	3,054,280
Property and equipment, net	250,526	241,803
Long-term marketable securities	114,456	75,352
Goodwill	1,376,936	1,376,721
Purchased intangible assets, net	42,489	46,607
Other assets	49,571	43,430
Total assets	<u>\$ 4,634,531</u>	<u>\$ 4,838,193</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 360,571	\$ 313,621
Wages and related benefits	137,373	147,853
Deferred revenue	7,907	15,864
Accrued liabilities	239,593	253,226
Total current liabilities	745,444	730,564
Commitments and contingencies		
Long-term deferred revenue	7,006	8,108
Other long-term liabilities	63,568	63,373
Shareholders' equity:		
Common stock	52	54
Additional paid-in capital	11,287,268	11,576,042
Accumulated deficit	(7,464,810)	(7,539,124)
Accumulated other comprehensive loss	(3,997)	(824)
Total shareholders' equity	3,818,513	4,036,148
Total liabilities and shareholders' equity	<u>\$ 4,634,531</u>	<u>\$ 4,838,193</u>

See accompanying notes.

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands, except per share data)	
Net revenue	\$ 1,032,210	\$ 901,481
Cost of revenue	481,163	440,949
Gross profit	551,047	460,532
Operating expense:		
Research and development	355,688	300,810
Selling, general and administrative	111,946	128,647
Amortization of purchased intangible assets	183	329
In-process research and development	10,900	300
Impairment of intangible assets	—	1,500
Settlement costs	15,810	—
Income from operations	56,520	28,946
Interest income, net	20,104	37,008
Other income (expense), net	924	(1,409)
Income before income taxes	77,548	64,545
Provision for income taxes	3,234	3,554
Net income	\$ 74,314	\$ 60,991
Net income per share (basic)	\$ .14	\$ .11
Net income per share (diluted)	\$ .14	\$ .10
Weighted average shares (basic)	530,338	547,860
Weighted average shares (diluted)	539,827	585,740

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Cost of revenue	\$ 5,465	\$ 5,814
Research and development	78,706	78,431
Selling, general and administrative	29,065	32,626

See accompanying notes.

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

	Three Months Ended March 31,	
	2008	2007
(In thousands)		
<b>Operating activities</b>		
Net income	\$ 74,314	\$ 60,991
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,249	13,299
Stock-based compensation expense:		
Stock options and other awards	58,029	79,145
Restricted stock units issued by Broadcom	55,207	37,726
Acquisition-related items:		
Amortization of purchased intangible assets	4,118	3,379
In-process research and development	10,900	300
Impairment of intangible assets	—	1,500
Loss on strategic investments, net	—	2,637
Changes in operating assets and liabilities:		
Accounts receivable	6,581	22,459
Inventory	9,911	2,383
Prepaid expenses and other assets	(6,296)	(16,290)
Accounts payable	46,014	21,475
Accrued settlement liabilities	10,000	(2,000)
Other accrued and long-term liabilities	(46,959)	17,652
Net cash provided by operating activities	<u>239,068</u>	<u>244,656</u>
<b>Investing activities</b>		
Net purchases of property and equipment	(25,662)	(63,964)
Net cash paid for acquisitions and other purchased intangible assets	(19,795)	(47,677)
Purchases of strategic investments	(355)	(3,500)
Purchases of marketable securities	(135,194)	(268,932)
Proceeds from sales and maturities of marketable securities	148,183	378,154
Net cash used in investing activities	<u>(32,823)</u>	<u>(5,919)</u>
<b>Financing activities</b>		
Repurchases of Class A common stock	(391,732)	(425,062)
Minimum tax withholding paid on behalf of employees for restricted stock units	(12,130)	(23,991)
Proceeds from issuance of common stock	12,314	80,825
Net cash used in financing activities	<u>(391,548)</u>	<u>(368,228)</u>
Decrease in cash and cash equivalents	(185,303)	(129,491)
Cash and cash equivalents at beginning of period	<u>2,186,572</u>	<u>2,158,110</u>
Cash and cash equivalents at end of period	<u>\$2,001,269</u>	<u>\$2,028,619</u>

See accompanying notes.

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**

**1. Summary of Significant Accounting Policies**

*Our Company*

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

*Basis of Presentation*

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Securities and Exchange Commission, or SEC, Form 10-Q and Article 10 of SEC Regulation S-X. They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2007, included in our Annual Report on Form 10-K filed with the SEC January 28, 2008.

The interim condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly our consolidated financial position at March 31, 2008 and December 31, 2007, and the consolidated results of our operations and consolidated cash flows for the three months ended March 31, 2008 and 2007. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for future quarters or the full year.

*Reclassifications*

Certain prior period amounts have been reclassified to conform to the current period presentation.

*Use of Estimates*

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of net revenue and expenses in the reporting periods. We regularly evaluate estimates and assumptions related to revenue recognition, rebates, allowances for doubtful accounts, sales returns and allowances, warranty reserves, inventory reserves, stock-based compensation expense, goodwill and purchased intangible asset valuations, strategic investments, deferred income tax asset valuation allowances, uncertain tax positions, self-insurance, restructuring costs, litigation and other loss contingencies. These estimates and assumptions are based on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that

## BROADCOM CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

are not readily apparent from other sources. The actual results we experience may differ materially and adversely from our original estimates. To the extent there are material differences between the estimates and actual results, our future results of operations will be affected.

**Revenue Recognition**

Our net revenue is generated principally by sales of semiconductor products. We derive the remaining balance of net revenue predominantly from royalty revenue pursuant to a patent license agreement, software licenses, development agreements, support and maintenance agreements, data services and cancellation fees. The majority of our sales occur through the efforts of our direct sales force. The remaining balance of sales occurs through distributors.

The following table presents details of our net revenue:

	Three Months Ended March 31,	
	2008	2007
Sales of semiconductor products	95.5%	99.1%
Royalty and other	4.5	0.9
	<u>100.0%</u>	<u>100.0%</u>
	Three Months Ended March 31,	
	2008	2007
Sales made through direct sales force	86.9%	85.6%
Sales made through distributors	13.1	14.4
	<u>100.0%</u>	<u>100.0%</u>

In accordance with SEC Staff Accounting Bulletin, or SAB, No. 104, *Revenue Recognition*, or SAB 104, we recognize product revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the price to the customer is fixed or determinable, and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment. A portion of our sales are made through distributors under agreements allowing for pricing credits and/or rights of return. Product revenue on sales made through these distributors is not recognized until the distributors ship the product to their customers. We record reductions to revenue for estimated product returns and pricing adjustments, such as competitive pricing programs and rebates, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns, analysis of credit memo data, specific criteria included in rebate agreements, and other factors known at the time. We also maintain inventory (hubbing) arrangements with certain of our customers. Pursuant to these arrangements we deliver products to a customer or a designated third party warehouse based upon the customer's projected needs, but do not recognize product revenue unless and until the customer reports that it has removed our product from the warehouse to incorporate into its end products.

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

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

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

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

***Cash and Cash Equivalents***

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

***Marketable Securities***

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

We account for our investment in debt and equity instruments under Statement of Financial Accounting Standards, or SFAS, No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and Financial Accounting Standards Board, or FASB, Staff Position, or FSP, SFAS No. 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. The investments are adjusted for amortization of premiums and discounts to maturity and such amortization is included in interest income. Historically we classified our cash equivalents and marketable securities as held-to-maturity. Effective February 2008 we reclassified our cash equivalents and marketable securities as available-for-sale and recorded a net unrealized gain in the amount of \$0.2 million in the three months ended March 31, 2008. Cash equivalents and marketable securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of shareholders' equity, net of tax. We follow the guidance provided by EITF No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in value judged to be other than temporary are

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

determined based on the specific identification method and are reported in other income (expense), net in the condensed consolidated statements of income.

***Fair Value of Financial Instruments***

Our financial instruments consist principally of cash and cash equivalents, short-term and long-term marketable securities, accounts receivable and accounts payable. Marketable securities are comprised of available-for-sale securities that are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of shareholders' equity, net of tax. Pursuant to SFAS No. 157, *Fair Value Measurements*, or SFAS 157, the fair value of our cash equivalents and marketable securities is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. We believe that the recorded values of all of our other financial instruments approximate their current values because of their nature and respective durations.

***Inventory***

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

***Property and Equipment***

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

***Goodwill and Purchased Intangible Assets***

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

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

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Flow Information and Present Value in Accounting Measurements* . Impairment is based on the excess of the carrying amount over the fair value of those assets.

***Rebates***

We account for rebates in accordance with EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)* , and, accordingly, at the time of sale we accrue 100% of the potential rebate as a reduction to revenue and do not apply a breakage factor. The amount of these reductions is based upon the terms included in our various rebate agreements. We reverse the accrual for unclaimed rebates as specific rebate programs end contractually or when we believe unclaimed rebates are no longer subject to payment and will not be paid.

***Warranty***

Our products typically carry a one to three year warranty. We establish reserves for estimated product warranty costs at the time revenue is recognized based upon our historical warranty experience, and additionally for any known product warranty issues.

***Guarantees and Indemnifications***

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

We also have obligations to indemnify certain of our present and former employees, officers and directors to the maximum extent permitted by law. Under these obligations, Broadcom is required to indemnify each such director or officer against expenses, including attorney's fees, judgments, fines and settlements, paid by such individual in connection with our currently outstanding securities litigation and related government investigations described in Note 7 (subject to certain exceptions). The maximum potential amount of the future payments we could be required to make under these indemnification obligations could be significant; however, we maintain directors' and officers' insurance policies that should limit our exposure and enable us to recover a portion of amounts paid with respect to such obligations. From inception of the securities litigation and related government investigations through March 31, 2008, we have recovered legal expenses in the amount of \$27.8 million, of which we have received \$13.7 million and recorded \$14.1 million in receivables, under these insurance policies. Of this amount, \$10.6 million was recorded as a reduction in our selling, general and administrative expenses in our unaudited condensed consolidated statement of income for the three months ended March 31, 2008. In certain limited circumstances, all or portions of the amounts recovered from our insurance carriers may be required to be repaid. We regularly evaluate the need to record a liability for potential future repayments in accordance with SFAS No. 5, *Accounting for Contingencies* , or SFAS 5. As of March 31, 2008 we have not recorded a liability in connection with these potential insurance repayment provisions.

***Income Taxes***

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

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

In July 2006 the FASB issued Interpretation, or FIN, No. 48, *Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109*, or FIN 48. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS 109. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. We adopted FIN 48 effective January 1, 2007 and the provisions of FIN 48 have been applied to all income tax positions commencing from that date. We recognize potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense.

***Stock-Based Compensation***

Broadcom has in effect stock incentive plans under which incentive stock options have been granted to employees and restricted stock units and non-qualified stock options have been granted to employees and non-employee members of the Board of Directors. We also have an employee stock purchase plan for all eligible employees. Effective January 1, 2006 we adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, and applied the provisions of SAB No. 107, *Share-Based Payment*, which require all share-based payments to employees, including grants of employee stock options, restricted stock units and employee stock purchase rights, to be recognized in the financial statements based upon their respective grant date fair values.

SFAS 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service period. We have estimated the fair value of stock options and stock purchase rights as of the date of grant or assumption using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and that are freely transferable. The Black-Scholes model considers, among other factors, the expected life of the award and the expected volatility of our stock price.

***Litigation and Settlement Costs***

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

***Net Income Per Share***

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

***Business Enterprise Segments***

We operate in one reportable operating segment, wired and wireless broadband communications. SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or SFAS 131, establishes standards for the way public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products

## BROADCOM CORPORATION

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and services, geographic areas and major customers. Although we had four operating segments at March 31, 2008, under the aggregation criteria set forth in SFAS 131 we operate in only one reportable operating segment, wired and wireless broadband communications.

Under SFAS 131, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles of SFAS 131, if the segments have similar economic characteristics, and if the segments are similar in each of the following areas:

- the nature of products and services;
- the nature of the production processes;
- the type or class of customer for their products and services; and
- the methods used to distribute their products or provide their services.

We meet each of the aggregation criteria for the following reasons:

- the sale of integrated circuits is the only material source of revenue for each of our four operating segments, other than royalty revenue in one of our operating segments in the first quarter of 2008;
- the integrated circuits sold by each of our operating segments use the same standard CMOS manufacturing processes;
- the integrated circuits marketed by each of our operating segments are sold to one type of customer: manufacturers of wired and wireless communications equipment, which incorporate our integrated circuits into their electronic products; and
- all of our integrated circuits are sold through a centralized sales force and common wholesale distributors.

All of our operating segments share similar economic characteristics as they have a similar long term business model, operate at gross margins similar to our consolidated gross margin, and have similar research and development expenses and similar selling, general and administrative expenses. The causes for variation among our operating segments are the same and include factors such as (i) life cycle and price and cost fluctuations, (ii) number of competitors, (iii) product differentiation and (iv) size of market opportunity. Additionally, each operating segment is subject to the overall cyclical nature of the semiconductor industry. The number and composition of employees and the amounts and types of tools and materials required are similar for each operating segment. Finally, even though we periodically reorganize our operating segments based upon changes in customers, end markets or products, acquisitions, long-term growth strategies, and the experience and bandwidth of the senior executives in charge, the common financial goals for each operating segment remain constant.

Because we meet each of the criteria set forth in SFAS 131 and our four operating segments share similar economic characteristics, we have aggregated our results of operations into one reportable operating segment.

#### ***Recent Accounting Pronouncements***

In September 2006 the FASB issued SFAS 157 which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008 the FASB issued FSP 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. The adoption of SFAS 157 related to financial assets and liabilities did not have a material impact on our consolidated financial statements. We are currently evaluating the impact, if any, that SFAS 157 may have on our future consolidated financial statements related to non-financial assets and liabilities.

## BROADCOM CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In December 2007 the FASB issued SFAS No. 141R, *Business Combinations*, or SFAS 141R. SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations we engage in will be recorded and disclosed according to SFAS 141, *Business Combinations*, until January 1, 2009. We expect SFAS No. 141R will have an impact on our consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after the effective date.

## 2. Supplemental Financial Information

### *Cash, Cash Equivalents and Marketable Securities*

At March 31, 2008 we had \$2.206 billion in cash, cash equivalents and marketable securities. Pursuant to SFAS 157, the fair value of our cash equivalents and marketable securities is determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets. We maintain an investment portfolio of various security holdings, types and maturities. We do not use derivative financial instruments. We place our cash investments in instruments that meet credit quality standards, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. At March 31, 2008 all of our investments were rated AAA, Aaa, A-1 or P-1 by the major credit rating agencies.

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

	<u>Cash and Cash Equivalents</u>	<u>Short-Term Marketable Securities</u>	<u>Long-Term Marketable Securities</u>	<u>Total</u>
	(In thousands)			
<b>March 31, 2008</b>				
Time deposits	\$ 629,722	\$ —	\$ —	\$ 629,722
U.S. Treasury and agency money market funds	579,300	—	—	579,300
U.S. Treasury and agency obligations	239,490	45,079	109,210	393,779
Institutional money market funds	348,881	—	—	348,881
Commercial paper and corporate bonds	151,663	44,954	5,246	201,863
Cash	52,213	—	—	52,213
	<u>\$ 2,001,269</u>	<u>\$ 90,033</u>	<u>\$ 114,456</u>	<u>\$2,205,758</u>
<b>December 31, 2007</b>				
Time deposits	\$ 850,018	\$ —	\$ —	\$ 850,018
U.S. Treasury and agency money market funds	755,000	—	—	755,000
Institutional money market funds	425,756	—	—	425,756
Commercial paper and corporate bonds	77,313	89,630	5,229	172,172
U.S. Treasury and agency obligations	33,706	52,098	70,123	155,927
Cash	44,779	—	—	44,779
	<u>\$ 2,186,572</u>	<u>\$ 141,728</u>	<u>\$ 75,352</u>	<u>\$2,403,652</u>

## BROADCOM CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Our cash, cash equivalents, short and long-term marketable securities had maturities as follows:

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
	(In thousands)	
<b>Maturity</b>		
Less than one year	\$2,091,302	\$ 2,328,300
One to two years	72,646	37,268
Two to three years	41,810	38,084
	<u>\$2,205,758</u>	<u>\$ 2,403,652</u>

**Inventory**

The following table presents details of our inventory:

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
	(In thousands)	
Work in process	\$ 73,273	\$ 60,479
Finished goods	148,129	170,834
	<u>\$221,402</u>	<u>\$ 231,313</u>

**Property and Equipment**

The following table presents details of our property and equipment:

	<u>Useful Life</u> <u>(In years)</u>	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
		(In thousands)	
Leasehold improvements	1 to 7	\$ 144,774	\$ 140,089
Office furniture and equipment	3 to 7	25,062	24,817
Machinery and equipment	3 to 5	176,690	208,453
Computer software and equipment	2 to 4	147,157	149,459
Construction in progress	N/A	11,040	6,558
		504,723	529,376
Less accumulated depreciation and amortization		(254,197)	(287,573)
		<u>\$ 250,526</u>	<u>\$ 241,803</u>

In the three months ended March 31, 2008, we disposed of \$53.1 million (at original cost) of property and equipment, with a net book value of \$1.9 million. In addition, we paid \$9.2 million related to capital equipment that was accrued at December 31, 2007 and accrued \$10.1 million for capital equipment at March 31, 2008.

## BROADCOM CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Goodwill*

The following table summarizes the activity related to the carrying value of our goodwill during the three months ended March 31, 2008:

	<u>Three Months Ended March 31, 2008</u> (In thousands)
Beginning balance	\$ 1,376,721
Goodwill recorded in connection with Sunext Design, Inc. acquisition (Note 3)	320
Other	(105)
Ending balance	<u>\$ 1,376,936</u>

*Purchased Intangible Assets*

The following table presents details of our purchased intangible assets:

	<u>March 31, 2008</u>			<u>December 31, 2007</u>		
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	(In thousands)					
Completed technology	\$218,769	\$ (178,152)	\$40,617	\$218,769	\$ (174,217)	\$44,552
Customer relationships	49,266	(47,516)	1,750	49,266	(47,366)	1,900
Customer backlog	3,436	(3,436)	—	3,436	(3,436)	—
Other	7,614	(7,492)	122	7,614	(7,459)	155
	<u>\$279,085</u>	<u>\$ (236,596)</u>	<u>\$42,489</u>	<u>\$279,085</u>	<u>\$ (232,478)</u>	<u>\$46,607</u>

The following table presents details of the amortization of purchased intangible assets *included* in each expense category:

	<u>Three Months Ended March 31,</u> <u>2008</u> <u>2007</u>	
	(In thousands)	
Cost of revenue	\$3,935	\$3,050
Operating expenses	183	329
	<u>\$4,118</u>	<u>\$3,379</u>

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

	<u>Purchased Intangible Asset Amortization by Year</u>					
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012 and Thereafter</u>	<u>Total</u>
	(In thousands)					
Cost of revenue	\$11,803	\$15,264	\$12,527	\$1,023	\$ —	\$40,617
Operating expenses	550	622	600	100	—	1,872
	<u>\$12,353</u>	<u>\$15,886</u>	<u>\$13,127</u>	<u>\$1,123</u>	<u>\$ —</u>	<u>\$42,489</u>

## BROADCOM CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Accrued Liabilities*

The following table presents details of our accrued liabilities:

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u> <sup>(1)</sup>
	(In thousands)	
Accrued rebates	\$101,718	\$ 132,603
Accrued payments on repurchases of Class A common stock	25,542	16,067
Warranty reserve	22,407	23,287
Accrued taxes	16,162	10,911
Accrued settlement costs	12,000	2,000
Deferred rent	9,026	7,970
Restructuring liabilities	4,520	4,460
Other	48,218	55,928
	<u>\$239,593</u>	<u>\$ 253,226</u>

(1) Excludes \$27.0 million of deferred rent that has been reclassified to Other Long-Term Liabilities to conform to current year presentation.

*Other Long-Term Liabilities*

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

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u> <sup>(1)</sup>
	(In thousands)	
Accrued taxes	\$ 30,818	\$ 32,331
Deferred rent	29,287	27,045
Restructuring liabilities	2,463	2,997
Other	1,000	1,000
	<u>\$ 63,568</u>	<u>\$ 63,373</u>

(1) Includes \$27.0 million of deferred rent that has been reclassified from accrued liabilities to conform to current year presentation.

*Accrued Rebate Activity*

The following table summarizes the activity related to accrued rebates during the three months ended March 31, 2008 and 2007:

	<u>Three Months Ended</u> <u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
	(In thousands)	
Beginning balance	\$132,603	\$131,028
Charged as a reduction to revenue	55,035	64,140
Reversal of unclaimed rebates	(15,329)	(2,423)
Payments	(70,591)	(47,155)
Ending balance	<u>\$101,718</u>	<u>\$145,590</u>

## BROADCOM CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Warranty Reserve Activity*

The following table summarizes the activity related to the warranty reserve during the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Beginning balance	\$23,287	\$19,222
Charged to costs and expenses	1,266	2,394
Payments	(2,146)	(799)
Ending balance	<u>\$22,407</u>	<u>\$20,817</u>

*Restructuring Activity*

The following table summarizes the activity related to our current and long-term restructuring liabilities during the three months ended March 31, 2008:

	Three Months Ended March 31, 2008	
	(In thousands)	
Beginning balance	\$	7,457
Cash payments <sup>(1)</sup>		(474)
Ending balance	<u>\$</u>	<u>6,983</u>

(1) Cash payments related to net lease payments on excess facilities, lease terminations and non-cancelable lease costs. The consolidation of excess facilities costs will be paid over the respective lease terms through 2010.

*Computation of Net Income Per Share*

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands, except per share data)	
Numerator: Net income	<u>\$ 74,314</u>	<u>\$ 60,991</u>
Denominator: Weighted average shares outstanding	530,431	547,934
Less: Unvested common shares outstanding	(93)	(74)
Denominator for net income per share (basic)	530,338	547,860
Effect of dilutive securities:		
Unvested common shares outstanding	—	18
Stock awards	9,489	37,862
Denominator for net income per share (diluted)	<u>539,827</u>	<u>585,740</u>
Net income per share (basic)	<u>\$ .14</u>	<u>\$ .11</u>
Net income per share (diluted)	<u>\$ .14</u>	<u>\$ .10</u>

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Net income per share (diluted) does not include the effect of anti-dilutive common share equivalents from outstanding stock options to purchase 99.0 million and 15.7 million shares of Class A common stock in the three months ended March 31, 2008 and 2007, respectively.

At March 31, 2008 there were outstanding stock options to purchase 124.5 million shares of Class A or Class B common stock with a weighted average exercise price of \$25.07 per share. In addition, there were 16.4 million restricted stock units outstanding that entitle the holders to receive a like number of freely transferable shares of Class A common stock as the awards vest.

***Patent License Agreement***

In July 2007 we entered into a patent license agreement with a wireless network operator. Under the agreement, royalty payments will be made to us at a rate of \$6.00 per unit for each applicable unit sold by the operator on or after the date of the agreement, subject to certain conditions, including without limitation a maximum payment of \$40.0 million per calendar quarter and a lifetime maximum of \$200.0 million. We recorded revenue in the amount of \$35.6 million in the three months ended March 31, 2008 under this agreement and have recorded a cumulative total of \$67.4 million from the commencement of the agreement through March 31, 2008.

***Supplemental Cash Flow Information***

In the three months ended March 31, 2008 we paid \$16.1 million related to share repurchases that had not settled by December 31, 2007 and accrued an additional \$25.5 million for share repurchases that had not settled by March 31, 2008. In addition, we paid \$9.2 million related to capital equipment that was accrued at December 31, 2007 and accrued \$10.1 million for capital equipment at March 31, 2008. In 2007, \$23.0 million was reclassified in the unaudited condensed consolidated statement of cash flows that increased net cash provided by operating activities and decreased net cash used in investing activities by the corresponding amount related to capital equipment purchased in 2006, but paid in 2007. These amounts have been excluded from the unaudited condensed consolidated statements of cash flows.

**3. Business Combinations**

In February 2008 we acquired Sunext Design, Inc., a wholly-owned subsidiary of Sunext Technology Corporation, Ltd., which specializes in the design of optical storage semiconductor products, for \$9.9 million. In connection with the acquisition, we assumed \$0.8 million in net liabilities and incurred \$0.5 million in acquisition costs. We recorded a one-time charge of \$10.9 million for purchased in-process research and development, or IPR&D, expense, as Sunext Design was an early stage company that had no completed technology, and recorded \$0.3 million in goodwill. The amount allocated to IPR&D in the three months ended March 31, 2008 was determined through established valuation techniques used in the high technology industry and was expensed upon acquisition as it was determined that the underlying projects had not reached technological feasibility and no alternative future uses existed. In addition, we are required to pay up to an additional \$38.0 million in future license fees and royalties on optical disk reader and writer technology, assuming Sunext Technology successfully delivers the technologies as defined in the license agreement. These royalties and license rights will be capitalized upon delivery and amortized to cost of revenue over the estimated economic useful life of the related products.

Our primary reasons for the acquisition were to reduce the time required to develop new technologies and products and bring them to market, incorporate enhanced functionality into and complement our existing high definition DVD technologies, augment our engineering workforce, and enhance our technological capabilities. Certain of the cash consideration in the above acquisition is currently held in escrow pursuant to the terms of the acquisition agreement.

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The unaudited condensed consolidated financial statements for the three months ended March 31, 2008 include the results of operations of Sunext Design commencing as of the acquisition date. No supplemental pro forma information is presented for the acquisition due to the immaterial effect of the acquisition on our results of operations.

**4. Income Taxes**

We recorded tax provisions of \$3.2 million and \$3.6 million for the three months ended March 31, 2008 and March 31, 2007, respectively. Our effective tax rates were 4.2% and 5.5% for the three months ended March 31, 2008 and March 31, 2007, respectively. The difference between our effective tax rates and the 35% federal statutory rate resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate.

We utilize the asset and liability method of accounting for income taxes as set forth in SFAS 109. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. SFAS 109 further states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of our recent cumulative losses in the U.S. and certain foreign jurisdictions, our U.S. tax losses after tax deductions for stock-based compensation, and the full utilization of our loss carryback opportunities, we have concluded that a full valuation allowance should be recorded in the U.S. and certain foreign jurisdictions. In certain other foreign jurisdictions where we do not have cumulative losses, we had net deferred tax assets of \$4.2 million and \$3.3 million, at March 31, 2008 and December 31, 2007, respectively, in accordance with SFAS 109.

We file federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2004 through 2007 tax years generally remain subject to examination by federal and most state tax authorities. In significant foreign jurisdictions, the 2001 through 2007 tax years generally remain subject to examination by tax authorities.

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

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

**5. Shareholders' Equity**

***Share Repurchase Program***

In November 2007 the Board of Directors authorized a new program to repurchase shares of Broadcom's Class A common stock having an aggregate value of up to \$1.0 billion depending on market conditions and other factors. Repurchases under the program may be made from time to time at any time during the period that commenced November 19, 2007 and continues through and including December 31, 2008. In the three months ended March 31, 2008 we repurchased a total of 20.0 million shares of Class A common stock at a weighted average price of \$20.04 per share, for a total of \$401.2 million. In the three months ended March 31, 2008, we paid \$16.1 million related to 2007 repurchases that had not settled by December 31, 2007 and accrued an additional \$25.5 million for 2008 repurchases that had not settled by March 31, 2008. From commencement of the current program through March 31, 2008, we repurchased a total of 25.7 million shares of Class A common stock at a weighted average price of \$21.66 per share. As of March 31, 2008, \$442.5 million remained authorized and available to repurchase shares of our Class A common stock under this plan.

## BROADCOM CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

**Comprehensive Income**

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>	
Net income	\$74,314	\$60,991
Other comprehensive income (loss):		
Unrealized gain on available-for-sale securities, net of tax	225	—
Translation adjustments	(3,398)	(194)
<b>Total comprehensive income</b>	<b><u>\$71,141</u></b>	<b><u>\$60,797</u></b>

**6. Employee Benefit Plans***Equity Awards*

We granted options to purchase 1.1 million shares of our Class A common stock and awarded 1.5 million restricted stock units during the three months ended March 31, 2008. As a result of employee terminations, we cancelled options to purchase 1.3 million shares of our Class A common stock and 0.5 million restricted stock units during the three months ended March 31, 2008.

*Stock-Based Compensation Expense*

The amount of unearned stock-based compensation currently estimated to be expensed from 2008 through 2011 related to unvested share-based payment awards at March 31, 2008 is \$853.9 million. Of this amount, \$305.4 million, \$306.6 million, \$182.2 million and \$59.7 million are currently estimated to be recorded in the remainder of 2008, and in 2009, 2010 and 2011, respectively. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately 1.4 years. Approximately 93.0% of the total unearned stock-based compensation as of March 31, 2008 will be expensed by the end of 2010. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards or assume unvested equity awards in connection with acquisitions.

**7. Litigation**

*Intellectual Property Proceedings.* In May 2005 we filed a complaint with the U.S. International Trade Commission, or ITC, asserting that Qualcomm Incorporated, or Qualcomm, engaged in unfair trade practices by importing integrated circuits and other products that infringe, both directly and indirectly, five of our patents relating generally to wired and wireless communications. The complaint sought an exclusion order to bar importation of those Qualcomm products into the United States and a cease and desist order to bar further sales of infringing Qualcomm products that have already been imported. In June 2005 the ITC instituted an investigation of Qualcomm based upon the allegations made in Broadcom's complaint. The investigation was later limited to asserted infringement of three Broadcom patents. Qualcomm has requested that the U.S. Patent and Trademark Office, or USPTO, reexamine two of the patents. In December 2006 the full Commission upheld the ITC administrative law judge's October 2006 initial determination finding all three patents valid and one infringed. In

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

June 2007 the Commission issued an exclusion order banning the importation into the United States of infringing Qualcomm chips and certain cellular phone models incorporating those chips. The Commission also issued a cease and desist order prohibiting Qualcomm from engaging in certain activities related to the infringing chips. The ITC orders were subject to a 60-day Presidential review period, which involved extensive review by the United States Trade Representative, who the President designated to decide whether to let the ITC orders stand or to overturn them through a statutory disapproval. In August 2007 the United States Trade Representative declined to disapprove the orders. In September 2007 the United States Court of Appeals for the Federal Circuit stayed the orders as to certain third parties pending appeal, but not as to Qualcomm. A hearing on the appeal has been set for June 2008.

In November 2007 we filed a complaint with the ITC to enforce the cease and desist order entered by the Commission. The complaint seeks monetary penalties and other remedies for Qualcomm's continued infringement. In December 2007 the ITC instituted an investigation based upon the allegations made in our complaint. A hearing in the matter commenced in April 2008.

In May 2005 we filed two complaints against Qualcomm in the United States District Court for the Central District of California. The first complaint asserts that Qualcomm has infringed, both directly and indirectly, the same five patents asserted by Broadcom in the ITC complaint. The District Court complaint seeks preliminary and permanent injunctions against Qualcomm and the recovery of monetary damages, including treble damages for willful infringement, and attorneys' fees. In July 2005 Qualcomm answered the complaint and asserted counterclaims seeking a declaratory judgment that our patents are invalid and not infringed. In December 2005 the court transferred the causes of action relating to two of the patents to the United States District Court for the Southern District of California, where they were later dismissed upon joint motion of the parties. Pursuant to statute, the court has stayed the remainder of this action pending the outcome of the ITC action.

A second District Court complaint asserts that Qualcomm has infringed, both directly and indirectly, five other Broadcom patents relating generally to wired and wireless communications and multimedia processing technologies. The complaint sought preliminary and permanent injunctions against Qualcomm and the recovery of monetary damages, including treble damages for willful infringement, and attorneys' fees. In July 2005 Qualcomm answered the second complaint and asserted counterclaims seeking a declaratory judgment that our patents are invalid and not infringed. In November 2006 we withdrew one of the patents from the case. In December 2006 the court granted a motion to stay proceedings on a second patent pending the outcome of a USPTO reexamination of that patent initiated at Qualcomm's request. In May 2007 a jury returned a verdict that Qualcomm infringed the three remaining patents and awarded Broadcom \$19.6 million in compensatory damages. The foregoing amount has not been recognized in our consolidated statements of income. Qualcomm has requested that the USPTO reexamine two of the infringed patents. In December 2007 the court issued a permanent injunction enjoining Qualcomm from future infringement of the three patents at issue. The permanent injunction includes a sunset period through January 31, 2009 concerning sales by Qualcomm of certain infringing products to customers existing as of May 29, 2007, provided that Qualcomm pays Broadcom an ongoing royalty for all such sales during the sunset period. The court amended the injunction in February 2008 and again in March 2008. The court entered final judgment against Qualcomm in March 2008, setting compensatory damages at \$22.8 million, plus pre-judgment and post-judgment interest. In April 2008 Qualcomm paid Broadcom royalties of \$24.3 million pursuant to the terms of the amended injunction. This payment has not been reflected in our unaudited consolidated condensed financial statements for the period ended March 31, 2008. Qualcomm has appealed the jury verdict and the injunction, and has not yet paid the compensatory damages award. A hearing on the appeal has been set for July 2008.

In October 2005 Qualcomm filed a third complaint against us in the United States District Court for the Southern District of California alleging that certain Broadcom products infringe, both directly and indirectly, two Qualcomm patents relating generally to the processing of digital video signals. The complaint sought preliminary and permanent injunctions against us as well as the recovery of monetary damages and attorneys' fees. We filed an

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

answer in December 2005 denying the allegations in Qualcomm's complaint and asserting counterclaims seeking a declaratory judgment that the two Qualcomm patents were invalid and not infringed. In January 2007 a jury returned a verdict that we did not infringe either patent, and rendered advisory verdicts that Qualcomm committed inequitable conduct before the USPTO and waived its patent rights in connection with its conduct before an industry standards body. In March 2007 the court adopted the jury's finding that Qualcomm waived its patent rights. In August 2007 the court held that Qualcomm's asserted patents were unenforceable due to Qualcomm's conduct, declared the case exceptional, and awarded us our attorneys' fees and costs. Qualcomm has appealed, but a hearing date on the appeal has not yet been set. In January 2008, the court granted-in-part our motion for sanctions against Qualcomm for litigation misconduct, awarding us our attorneys' fees and costs. In January 2008 Qualcomm paid Broadcom \$8.6 million pursuant to that award, which amount has been reflected as a reduction of legal expense included in selling, general and administrative expense in the three months ended March 31, 2008.

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

In February 2007 SiRF filed a complaint in the ITC alleging that Global Locate engaged in unfair trade practices by importing integrated circuits and other products that infringe, both directly and indirectly, four SiRF patents relating generally to GPS technology. The complaint seeks an exclusion order to bar importation of those Global Locate products into the United States and a cease and desist order to bar further sales of infringing Global Locate products that have already been imported. In March 2007 the ITC instituted an investigation of Global Locate based upon the allegations made in the SiRF complaint. SiRF withdrew two patents from the investigation, and an ITC administrative law judge conducted a hearing on SiRF's remaining two patents in suit in March 2008. The ITC has set a target date for completion of the investigation in October 2008.

In April 2007 Global Locate filed a complaint in the ITC against SiRF and four of its customers, e-TEN Corporation, Pharos Science & Applications, Inc., MiTAC International Corporation and Mio Technology Limited (collectively, the "SiRF Defendants"), asserting that the SiRF Defendants engaged in unfair trade practices by importing GPS devices, including integrated circuits and embedded software, incorporated in products, such as personal navigation devices and GPS-enabled cellular telephones, that infringe, both directly and indirectly, six Global Locate patents relating generally to GPS technology. The complaint seeks an exclusion order to bar importation of the SiRF Defendants' products into the United States and a cease and desist order to bar further sales of infringing products that have already been imported. In May 2007 the ITC instituted an investigation of the SiRF Defendants based upon the allegations made in the Global Locate complaint. A hearing was held in April 2008, and we are awaiting the initial determination of the ITC administrative law judge. The ITC has set a target date for completion of the investigation in December 2008.

In July 2007 OPTi Inc. filed a complaint against us and others in the United States District Court for the Eastern District of Texas. The complaint alleges that we have infringed, both directly and indirectly, two patents relating generally to a bus interface architecture. The complaint seeks preliminary and permanent injunctions, the recovery of monetary damages, including treble damages for willful infringement, and attorneys' fees. In September 2007 we answered the complaint and asserted counterclaims seeking declaratory judgments that the asserted patents are invalid, unenforceable, and not infringed. Discovery is ongoing. Trial has been set for February 2009.

## BROADCOM CORPORATION

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

In March 2008 Netgear, Inc. filed a third party complaint against us and multiple other defendants in the United States District Court for the Western District of Wisconsin alleging that, to the extent Broadcom was a supplier of components for products accused of infringement in a related patent infringement case by LG Electronics Inc., Fujitsu Limited and U.S. Philips Corporation, Broadcom is obligated to defend and indemnify Netgear. The complaint seeks the recovery of monetary damages. We have not yet filed an answer.

*Antitrust and Unfair Competition Proceedings.* In July 2005 we filed a complaint against Qualcomm in the United States District Court for the District of New Jersey asserting that Qualcomm's licensing and other practices related to cellular technology and products violate federal and state antitrust laws. The complaint also asserted causes of action based on breach of contract, promissory estoppel, fraud, and tortious interference with prospective economic advantage. In September 2005 we filed an amended complaint in the action also challenging Qualcomm's proposed acquisition of Flarion Technologies, Inc. under the antitrust laws and asserting violations of various state unfair competition and unfair business practices laws. In August 2006 the District Court granted Qualcomm's motion to dismiss the complaint. In September 2007 the United States Court of Appeals for the Third Circuit reversed the dismissal in part and returned the case to the District Court for further proceedings. In November 2007 we filed an amended complaint in the case adding additional causes of action based primarily upon allegations originally made in the California state unfair competition case described below. In December 2008 Qualcomm filed a motion to dismiss the additional causes of action. The court has not yet ruled on the motion. In February 2008 Qualcomm filed counterclaims seeking a declaratory judgment that it had complied with its obligations to industry standards bodies. Qualcomm also filed an affirmative defense asserting that our claims were barred by unclean hands. In April 2008 we moved to dismiss Qualcomm's counterclaims and affirmative defense. The court has not yet ruled on that motion. Discovery is in progress, and a trial date in the District Court has been tentatively set for June 2009.

In October 2005 Broadcom and five other leading mobile wireless technology companies filed complaints with the European Commission requesting that the Commission investigate Qualcomm's anticompetitive conduct related to the licensing of its patents and the sale of its chipsets for mobile wireless devices and systems. In October 2007 the Commission announced that it had instituted a formal investigation of Qualcomm.

In June 2006 Broadcom and another leading mobile wireless technology company filed complaints with the Korean Fair Trade Commission requesting that the Commission investigate Qualcomm's anticompetitive conduct related to the licensing of its patents and the sale of its chipsets for mobile wireless devices and systems. The Commission has instituted a formal investigation of Qualcomm.

In April 2007 we filed a complaint in the Superior Court for Orange County, California alleging that Qualcomm's conduct before various industry standards organizations constitutes unfair competition, fraud and breach of contract. The complaint seeks an injunction against Qualcomm as well as the recovery of monetary damages. In October 2007 the court stayed the case pending final resolution of our case against Qualcomm in the United States District Court for the District of New Jersey.

*Securities Litigation.* From March through August 2006 a number of purported Broadcom shareholders filed putative shareholder derivative actions, the Options Derivative Actions, against Broadcom, each of the members of our Board of Directors, certain current or former officers, and Henry T. Nicholas III, our co-founder, alleging, among other things, that the defendants improperly dated certain Broadcom employee stock option grants. Four of those cases, *Murphy v. McGregor, et al.* (Case No. CV06-3252 R (CWx)), *Shei v. McGregor, et al.*

## BROADCOM CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Case No. SACV06-663 R (CWx)), *Ronconi v. Dull, et al.* (Case No. SACV 06-771 R (CWx)) and *Jin v. Broadcom Corporation, et al.* (Case No. 06CV00573) have been consolidated in the United States District Court for the Central District of California. The plaintiffs filed a consolidated amended complaint in November 2006. In addition, two putative shareholder derivative actions, *Pirelli Armstrong Tire Corp. Retiree Med. Benefits Trust v. Samuelli, et al.* (Case No. 06CC0124) and *Servais v. Samuelli, et al.* (Case No. 06CC0142), were filed in the California Superior Court for the County of Orange. The Superior Court consolidated the state court derivative actions in August 2006, and the plaintiffs filed a consolidated amended complaint in September 2006. The plaintiffs in the Options Derivative Actions contend, among other things, that the defendants' conduct violated United States and California securities laws, breached defendants' fiduciary duties, wasted corporate assets, unjustly enriched the defendants, and caused errors in our financial statements. The plaintiffs seek, among other things, unspecified damages and disgorgement of profits from the alleged conduct, to be paid to Broadcom.

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

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

We have indemnification agreements with each of our present and former directors and officers, under which we are generally required to indemnify each such director or officer against expenses, including attorney's fees, judgments, fines and settlements, arising from the Options Derivative Actions, the Options Class Actions and the pending SEC and U.S. Attorney's Office investigations described below (subject to certain exceptions, including liabilities arising from willful misconduct, from conduct knowingly contrary to the best interests of Broadcom, or conduct that is knowingly fraudulent or deliberately dishonest or results in improper personal benefit).

In April 2008 we delivered a Notice of Arbitration and Arbitration Claim to our former independent registered public accounting firm, E&Y, and certain related parties. The arbitration relates to the issues that led to the restatement of Broadcom's financial statements for the periods from 1998 through March 31, 2006 as disclosed in an amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and an amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006, each filed with the SEC January 23, 2007. Formal arbitration proceedings have not yet commenced.

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*SEC Formal Order of Investigation and United States Attorney's Office Investigation.* In June 2006 we received an informal request for information from the staff of the Los Angeles regional office of the SEC regarding our historical option granting practices. In December 2006 the SEC issued a formal order of investigation and a subpoena for the production of documents. In 2007 we provided substantial amounts of documents and information to the SEC on a voluntary basis. In addition, we have produced documents pursuant to subpoenas. In July 2007 we received a "Wells Notice" from the SEC in connection with this investigation. The Chairman of the Board of Directors and Chief Technical Officer of Broadcom, Dr. Henry Samueli, also received a Wells Notice at that time. In August 2007 our Senior Vice President, Business Affairs and General Counsel, David A. Dull, also received a Wells Notice. The Wells Notices provide notification that the staff of the SEC intends to recommend to the Commission that it bring a civil action against the recipients for possible violations of the securities laws. Under the process established by the SEC, recipients have the opportunity to respond in writing to a Wells Notice before the SEC staff makes any formal recommendation to the Commission regarding what action, if any, should be brought by the SEC. In April 2008 the SEC brought a complaint against Broadcom alleging violations of the federal securities laws, and we entered into a settlement with the SEC. Without admitting or denying the SEC's allegations, we agreed to pay a civil penalty of \$12.0 million, which we recorded as a settlement cost in the three months ended March 31, 2008, and stipulated to an injunction against future violations of certain provisions of the federal securities laws. The settlement is subject to approval by the United States District Court for the Central District of California. If court approval is obtained, the settlement will conclude the SEC's investigation of this matter with respect to Broadcom. We do not know when the investigation will be resolved with respect to Dr. Samueli and/or Mr. Dull or what actions, if any, the Commission may require either to take in resolution of the investigation against him personally.

In August 2006 we were informally contacted by the U.S. Attorney's Office for the Central District of California and asked to produce documents. In 2006 we voluntarily provided documents and data to the U.S. Attorney's Office. In 2007 we continued to provide substantial amounts of documents and information to the U.S. Attorney's Office on a voluntary basis. In addition, we have produced documents pursuant to grand jury subpoenas. The U.S. Attorney's Office continues to interview and seek grand jury testimony from present and former Broadcom employees, officers and directors as part of its investigation. We are continuing to cooperate with the U.S. Attorney's Office in its investigation. Any action by the SEC, the U.S. Attorney's Office or other governmental agency could result in civil or criminal sanctions and/or fines against us and/or certain of our current or former officers, directors and/or employees.

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

*General.* The foregoing discussion includes material developments that occurred during the three months ended March 31, 2008 or thereafter in material legal proceedings in which we and/or our subsidiaries are involved. For additional information regarding certain of these and related legal proceedings, see Note 11 of Notes to Consolidated Financial Statements in Broadcom's Annual Report on Form 10-K for the year ended December 31, 2007.

We and our subsidiaries are also involved in other legal proceedings, claims and litigation arising in the ordinary course of business. In the three months ended March 31, 2008 we settled a patent infringement claim for \$3.8 million and recorded the settlement cost in our unaudited condensed consolidated statement of operations.

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

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

### Cautionary Statement

*You should read the following discussion and analysis in conjunction with our Unaudited Condensed Consolidated Financial Statements and the related Notes thereto contained in Part I, Item 1 of this Report. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Report and in our other reports filed with the Securities and Exchange Commission, or SEC, including our Annual Report on Form 10-K for the year ended December 31, 2007 and subsequent reports on Form 8-K, which discuss our business in greater detail.*

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

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

### Overview

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

*Net Revenue.* Our net revenue is generated principally by sales of our semiconductor products. We derive the remainder of our net revenue predominantly from royalty revenue pursuant to a patent license agreement, software

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licenses, development agreements, support and maintenance agreements, data services and cancellation fees. The majority of our sales occur through the efforts of our direct sales force. The remaining balance of our sales occurs through distributors.

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

The following table presents details of our net revenue:

	Three Months Ended March 31,	
	2008	2007
Sales of semiconductor products	95.5%	99.1%
Royalties and other	4.5 <sup>(1)</sup>	0.9
	<u>100.0%</u>	<u>100.0%</u>

(1) Includes royalties in the amount of \$35.6 million pursuant to a patent license agreement entered into in July 2007.

	Three Months Ended March 31	
	2008	2007
Sales made through direct sales force	86.9%	85.6%
Sales made through distributors	13.1	14.4
	<u>100.0%</u>	<u>100.0%</u>

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

- general economic and market conditions in the semiconductor industry and wired and wireless communications markets;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;
- our ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a cost effective and timely manner;
- seasonality in the demand for consumer-oriented products into which certain of our products are incorporated;
- the rate at which our present and future customers and end-users adopt our products and technologies in our target markets; and
- the qualification, availability and pricing of competing products and technologies and the resulting effects on sales and pricing of our products.

For these and other reasons, our net revenue and results of operations for the three months ended March 31, 2008 and prior periods may not necessarily be indicative of future net revenue and results of operations.

From time to time, our key customers place large orders causing our quarterly net revenue to fluctuate significantly. We expect that these fluctuations will continue and that they may be exaggerated by the increasing volume of our products that are incorporated into consumer products, sales of which are typically subject to greater seasonality and greater volume fluctuations than non-consumer OEM products. We also maintain inventory, or hubbing, arrangements with certain of our customers. Pursuant to these arrangements we deliver products to a customer or a designated third party warehouse based upon the customer's projected needs, but do

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not recognize product revenue unless and until the customer reports that it has removed our product from the warehouse to incorporate into its end products. Historically we have had good visibility into customer requirements and shipments within a quarter. However, if a customer does not take our products under a hubbing arrangement in accordance with the schedule it originally provided to us, our predicted future revenue stream could vary substantially from our forecasts and our results of operations could be materially and adversely affected. Additionally, since we own inventory that is physically located in a third party's warehouse, our ability to effectively manage inventory levels may be impaired, causing our total inventory turns to decrease, which could increase expenses associated with excess and obsolete product and negatively impact our cash flow.

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

	Three Months Ended March 31,	
	2008	2007
Five largest customers as a group	36.6%	46.0%

We expect that our largest customers will continue to account for a substantial portion of our net revenue in 2008 and for the foreseeable future. The identities of our largest customers and their respective contributions to our net revenue have varied and will likely continue to vary from period to period. The primary factors that contributed to the decrease in net revenue of our top customers as a percentage of net revenue were: (i) product mix changes with some of our large customers and (ii) new product ramps at new customers that expanded our overall customer base.

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

	Three Months Ended March 31,	
	2008	2007
Asia (primarily in Japan, Korea, China and Taiwan)	27.2%	23.1%
Europe (primarily in Finland, France and the United Kingdom)	9.6	7.4
Other	0.6	0.6
	<u>37.4%</u>	<u>31.1%</u>

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

	Three Months Ended March 31,	
	2008	2007
Asia (primarily in China, Hong Kong, Taiwan, Japan and Singapore)	78.2%	81.2%
Europe (primarily in Hungary, Germany, Estonia and Sweden)	3.2	2.7
Other	3.4	3.9
	<u>84.8%</u>	<u>87.8%</u>

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

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

- our product mix and volume of product sales (including sales to high volume customers);

- the positions of our products in their respective life cycles;
- licensing and royalty revenue;
- the effects of competition;
- the effects of competitive pricing programs and rebates;
- manufacturing cost efficiencies and inefficiencies;
- fluctuations in direct product costs such as wafer pricing and assembly, packaging and testing costs, and overhead costs;
- our ability to create cost advantages through successful integration and convergence;
- product warranty costs;
- provisions for excess and obsolete inventories;
- amortization of purchased intangible assets; and
- stock-based compensation expense.

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

- stock-based compensation expense;
- required levels of research and development and other operating costs;
- licensing and royalty revenue;
- in-process research and development, or IPR&D;
- litigation costs and insurance recoveries;
- settlement costs;
- the loss of interest income resulting from lower average interest rates and expenditures on repurchases of our Class A common stock;
- amortization of purchased intangible assets;
- impairment of goodwill and other intangible assets;
- income tax benefits from adjustments to tax reserves of foreign subsidiaries;
- gain (loss) on strategic investments; and
- restructuring costs or reversals thereof.

In the three months ended March 31, 2008 our net income was \$74.3 million as compared to \$61.0 million in the three months ended March 31, 2007, a difference of \$13.3 million. This increase in profitability was the direct result of a \$130.7 million increase in net revenue, offset by a \$62.9 million increase in operating expenses. The increase in net revenue included royalty revenue in the amount of \$35.6 million and the reversal of rebates in the amount of \$15.3 million. The remaining increase in net revenue was primarily the result of strong growth driven by new products, customer ramps for our Bluetooth™ and wireless LAN products, and an increase in demand for our digital TV solutions and Ethernet switch and controller products. Operating expenses increased principally due to an increase in the number of employees engaged in research and development activities in the area of mobile and wireless products and increased mask and prototyping costs due to the continued transition of certain products to 65 nanometer process technology. Additional items that increased operating expenses were settlement costs of \$15.8 million and a \$10.6 million increase in IPR&D. In addition, we experienced a decrease in legal expenses of \$18.1 million in the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. This amount included an \$8.6 million reimbursement of legal fees related to certain litigation with Qualcomm. Research and development costs have and will continue to increase in 2008 as we

increase the number of employees engaged in research and development activities and ready a number of design wins to go into production. Research and development costs will also increase over the long term as a result of growth in, and the diversification of, the markets we serve, new product opportunities, changes in our compensation policies, and any expansion into new markets and technologies. Overall our legal fees fluctuate from period to period due to the nature, scope, timing and costs of the matters in litigation from time to time.

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

*Acquisition Strategy.* An element of our business strategy involves the acquisition of businesses, assets, products or technologies that allow us to reduce the time required to develop new technologies and products and bring them to market, incorporate enhanced functionality into and complement our existing product offerings, augment our engineering workforce, and enhance our technological capabilities. We plan to continue to evaluate strategic opportunities as they arise, including acquisitions and other business combination transactions, strategic relationships, capital infusions and the purchase or sale of assets. See Note 3 of Notes to Unaudited Condensed Consolidated Financial Statements for information related to the acquisition made during the three months ended March 31, 2008.

*Business Enterprise Segments.* We operate in one reportable operating segment, wired and wireless broadband communications. Statement of Financial Accounting Standards, or SFAS, No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or SFAS 131, establishes standards for the way public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. Although we had four operating segments at March 31, 2008, under the aggregation criteria set forth in SFAS 131 we operate in only one reportable operating segment, wired and wireless broadband communications.

Under SFAS 131, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles of SFAS 131, if the segments have similar economic characteristics, and if the segments are similar in each of the following areas:

- the nature of products and services;
- the nature of the production processes;
- the type or class of customer for their products and services; and
- the methods used to distribute their products or provide their services.

We meet each of the aggregation criteria for the following reasons:

- the sale of integrated circuits is the only material source of revenue for each of our four operating segments, other than royalty revenue in one of our operating segments in the first quarter of 2008;
- the integrated circuits sold by each of our operating segments use the same standard CMOS manufacturing processes;
- the integrated circuits marketed by each of our operating segments are sold to one type of customer: manufacturers of wired and wireless communications equipment, which incorporate our integrated circuits into their electronic products; and
- all of our integrated circuits are sold through a centralized sales force and common wholesale distributors.

All of our operating segments share similar economic characteristics as they have a similar long term business model, operate at gross margins similar to our consolidated gross margin, and have similar research and development expenses and similar selling, general and administrative expenses. The causes for variation among our operating segments are the same and include factors such as (i) life cycle and price and cost fluctuations, (ii) number of competitors, (iii) product differentiation and (iv) size of market opportunity. Additionally, each operating segment is subject to the overall cyclical nature of the semiconductor industry. The number and composition of employees and the amounts and types of tools and materials required are similar for each operating segment. Finally, even though we periodically reorganize our operating segments based upon changes in customers, end markets or products, acquisitions, long- term growth strategies, and the experience and bandwidth of the senior executives in charge, the common financial goals for each operating segment remain constant.

Because we meet each of the criteria set forth in SFAS 131 and our four operating segments share similar economic characteristics, we have aggregated our results of operations into one reportable operating segment.

### Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses in the reporting period. We regularly evaluate our estimates and assumptions related to revenue recognition, rebates, allowances for doubtful accounts, sales returns and allowances, warranty reserves, inventory reserves, stock-based compensation expense, goodwill and purchased intangible asset valuations, strategic investments, deferred income tax asset valuation allowances, uncertain tax positions, self-insurance, restructuring costs, litigation and other loss contingencies. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

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

- *Net Revenue.* We recognize product revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) our price to the customer is fixed or determinable and (iv) collection of the resulting accounts receivable is reasonably assured. These criteria are usually met at the time of product shipment. However, we do not recognize revenue until all customer acceptance requirements have been met and no significant obligations remain, when applicable. Customer purchase orders and/or contracts are generally used to determine the existence of an arrangement. Shipping documents and the completion of any customer acceptance requirements, when applicable, are used to verify product delivery or that services have been rendered. We assess whether a price is fixed or determinable based upon the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess the collectibility of our accounts receivable based primarily upon the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

In arrangements in which our semiconductor products and software are delivered concurrently and post-contract customer support is not provided, we recognize revenue upon shipment of the semiconductor product, assuming all other basic revenue recognition criteria are met, as both the semiconductor products and software are considered delivered elements and no undelivered elements exist. In limited instances in which there are undelivered elements, we allocate revenue based on the relative fair value of the individual elements. If there is no established fair value for an undelivered element, the entire arrangement is accounted for as a single unit of accounting, resulting in a deferral of revenue and costs for the delivered

element until the undelivered element has been fulfilled. In the case that the undelivered element is data or a support service, the revenue and costs applicable to both the delivered and undelivered elements are recorded ratably over the respective service period or estimated product life. If the undelivered element is essential to the functionality of the delivered element, no revenue or costs are recognized until the undelivered element is delivered. If we enter into future multiple element arrangements in which the fair value of each deliverable is not known, the portion of revenue we recognize on a deferred basis may vary significantly in any given quarter, which could cause even greater fluctuations in our quarterly operating results.

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

- *Sales Returns, Pricing Adjustments and Allowance for Doubtful Accounts.* We record reductions to revenue for estimated product returns and pricing adjustments, such as competitive pricing programs and rebates, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns, analysis of credit memo data, specific criteria included in rebate agreements, and other factors known at the time. We accrue 100% of potential rebates at the time of sale and do not apply a breakage factor. We reverse the accrual of unclaimed rebate amounts as specific rebate programs contractually end or when we believe unclaimed rebates are no longer subject to payment and will not be paid. Thus the reversal of unclaimed rebates may have a positive impact on our revenue, gross profit and net income in subsequent periods. Additional reductions to revenue would result if actual product returns or pricing adjustments exceed our estimates. We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of any customer were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances could be required.
- *Inventory and Warranty Reserves.* We establish inventory reserves for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions. If actual demand and market conditions are less favorable than those projected by management, additional inventory reserves could be required. Under the hubbing arrangements that we maintain with certain customers, we own inventory that is physically located in a customer's or third party's warehouse. As a result, our ability to effectively manage inventory levels may be impaired, which would cause our total inventory turns to decrease. In that event, our expenses associated with excess and obsolete inventory could increase and our cash flow could be negatively impacted. Our products typically carry a one to three year warranty. We establish reserves for estimated product warranty costs at the time revenue is recognized. Although we engage in extensive product quality programs and processes, our warranty obligation has been and may in the future be affected by product failure rates, product recalls, repair or field replacement costs and additional development costs incurred in correcting any product failure, as well as possible claims for consequential costs. Should actual product failure rates, use of materials or service delivery costs differ from

our estimates, additional warranty reserves could be required. In that event, our gross profit and gross margins would be reduced.

- *Stock-Based Compensation Expense.* Effective January 1, 2006 we adopted SFAS No. 123R (revised), *Share-Based Payment*, or SFAS 123R, which requires all share-based payments, including grants of stock options, restricted stock units and employee stock purchase rights, to be recognized in our financial statements based upon their respective grant date fair values. Under this standard, the fair value of each employee stock option and employee stock purchase right is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our stock options and stock purchase rights. The Black-Scholes model meets the requirements of SFAS 123R but the fair values generated by the model may not be indicative of the actual fair values of our equity awards as it does not consider certain factors important to those awards to employees, such as continued employment and periodic vesting requirements as well as limited transferability. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. We use the implied volatility for traded options on our stock as the expected volatility assumption required in the Black-Scholes model. Our selection of the implied volatility approach is based on the availability of data regarding actively traded options on our stock as we believe that implied volatility is more representative than historical volatility. The expected life of the stock options is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of our stock options and stock purchase rights. The dividend yield assumption is based on our history and expectation of no dividend payouts. The fair value of our restricted stock units is based on the closing market price of our Class A common stock on the date of grant. We will evaluate the assumptions used to value stock awards on a quarterly basis. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. To the extent that we grant additional equity securities to employees or we assume unvested securities in connection with any acquisitions, our stock-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions.
- *Goodwill and Purchased Intangible Assets.* Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. The amounts and useful lives assigned to intangible assets acquired, other than goodwill, impact the amount and timing of future amortization, and the amount assigned to in-process research and development is expensed immediately. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) any future declines in our operating results, (ii) a decline in the valuation of technology company stocks, including the valuation of our common stock, (iii) another significant slowdown in the worldwide economy or the semiconductor industry or (iv) any failure to meet the performance projections included in our forecasts of future operating results. We evaluate these assets, including purchased intangible assets deemed to have indefinite lives, on an annual basis in the fourth quarter or more frequently if we believe indicators of impairment exist. In the process of our annual impairment review, we primarily use the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value of our intangible assets. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans may change and estimates used may prove to be inaccurate. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.
- *Deferred Taxes and Uncertain Tax Positions.* We utilize the asset and liability method of accounting for income taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that we

believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of our cumulative losses in the U.S. and certain foreign jurisdictions, our U.S. tax losses after tax deductions for stock-based compensation, and the full utilization of our loss carryback opportunities, we have concluded that a full valuation allowance against our net deferred tax assets is appropriate in the U.S. and certain foreign jurisdictions. In certain other foreign jurisdictions where we do not have cumulative losses, we record valuation allowances to reduce our net deferred tax assets to the amount we believe is more likely than not to be realized. In the future, if we realize a deferred tax asset that currently carries a valuation allowance, we may record a reduction to income tax expense in the period of such realization. In July 2006 the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109*, or FIN 48, which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Under FIN 48, tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

- *Litigation and Settlement Costs.* From time to time, we are involved in disputes, litigation and other legal proceedings. We prosecute and defend these matters aggressively. However, there are many uncertainties associated with any litigation, and we cannot assure you that these actions or other third party claims against us will be resolved without costly litigation and/or substantial settlement charges. In addition, the resolution of intellectual property litigation may require us to pay damages for past infringement or to obtain a license under the other party's intellectual property rights that could require one-time license fees or running royalties, which could adversely impact gross profit and gross margins in future periods, or could prevent us from manufacturing or selling some of our products or limit or restrict the type of work that employees involved in such litigation may perform for Broadcom. If any of those events were to occur, our business, financial condition and results of operations could be materially and adversely affected. We record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated. However, the actual liability in any such disputes or litigation may be materially different from our estimates, which could result in the need to record additional costs.

## Results of Operations for the Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007

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

	Three Months Ended March 31,	
	2008	2007
Net revenue	100.0%	100.0%
Cost of revenue	46.6	48.9
Gross profit	53.4	51.1
Operating expense:		
Research and development	34.5	33.4
Selling, general and administrative	10.8	14.3
Amortization of purchased intangible assets	0.0	0.0
In-process research and development	1.1	0.0
Impairment of intangible assets	—	0.2
Settlement costs	1.5	—
Income from operations	5.5	3.2
Interest income, net	1.9	4.1
Other income (expense), net	0.1	(0.1)
Income before income taxes	7.5	7.2
Provision for income taxes	0.3	0.4
Net income	7.2%	6.8%

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

	Three Months Ended March 31,	
	2008	2007
Cost of revenue	0.5%	0.6%
Research and development	7.6	8.7
Selling, general and administrative	2.8	3.6

### Net Revenue, Cost of Revenue and Gross Profit

The following table presents net revenue, cost of revenue and gross profit for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31, 2008		Three Months Ended March 31, 2007		Increase	% Change
	Amount	% of Net Revenue	Amount	% of Net Revenue		
Net revenue	\$ 1,032,210 <sup>(2)</sup>	100.0%	\$901,481	100.0%	\$130,729	14.5%
Cost of revenue <sup>(1)</sup>	481,163	46.6	440,949	48.9	40,214	9.1
Gross profit	\$ 551,047	53.4%	\$460,532	51.1%	\$ 90,515	19.7

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

(2) Includes royalties in the amount of \$35.6 million received pursuant to a patent license agreement entered into in July 2007.

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

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

The following table presents net revenue from each of our major target markets and its respective contribution to net revenue in the three months ended March 31, 2008 as compared to the three months ended March 31, 2007:

	<b>Three Months Ended March 31, 2008</b>		<b>Three Months Ended March 31, 2007</b>		<b>Increase</b>	<b>% Change</b>
	<b>Amount</b>	<b>% of Net Revenue</b>	<b>Amount</b>	<b>% of Net Revenue</b>		
	<b>(In thousands, except percentages)</b>					
Broadband communications	\$ 365,441	35.4%	\$349,295	38.7%	\$ 16,146	4.6%
Mobile and wireless	359,028 <sup>(1)</sup>	34.8	274,238	30.4	84,790	30.9
Enterprise networking	307,741	29.8	277,948	30.9	29,793	10.7
Net revenue	<u>\$ 1,032,210<sup>(1)</sup></u>	<u>100.0%</u>	<u>\$901,481</u>	<u>100.0%</u>	<u>\$130,729</u>	14.5

(1) Includes royalties in the amount of \$35.6 million received pursuant to a patent license agreement entered into in July 2007.

The increase in net revenue from our broadband communications target market resulted primarily from an increase in demand for our digital TV solutions. The increase in net revenue from our mobile and wireless target market resulted primarily from strong growth driven by new products and customer ramps for our Bluetooth, wireless LAN and GPS product offerings, as well as royalty revenue in the amount of \$35.6 million received pursuant to a patent license agreement entered into in July 2007, offset in part by a decrease in demand for our mobile multimedia product offerings. The increase in net revenue from our enterprise networking target market resulted primarily from an increase in demand attributable to our Ethernet switch and controller products.

The following table presents net revenue from each of our major target markets and its respective contribution to net revenue in the three months ended March 31, 2008 as compared to the three months ended December 31, 2007:

	<b>Three Months Ended March 31, 2008</b>		<b>Three Months Ended December 31, 2007</b>		<b>Increase (Decrease)</b>	<b>% Change</b>
	<b>Amount</b>	<b>% of Net Revenue</b>	<b>Amount</b>	<b>% of Net Revenue</b>		
	<b>(In thousands, except percentages)</b>					
Broadband communications	\$ 365,441	35.4%	\$ 353,832	34.5%	\$ 11,609	3.3%
Mobile and wireless <sup>(1)</sup>	359,028	34.8	381,112	37.1	(22,084)	(5.8)
Enterprise networking	307,741	29.8	292,091	28.4	15,650	5.4
Net revenue <sup>(1)</sup>	<u>\$ 1,032,210</u>	<u>100.0%</u>	<u>\$1,027,035</u>	<u>100.0%</u>	<u>\$ 5,175</u>	0.5

(1) Includes royalties in the amount of \$35.6 million and \$31.8 million in the three months ended March 31, 2008 and December 31, 2007, respectively, received pursuant to a patent license agreement entered into in July 2007.

The increase in net revenue in our broadband communications target market resulted primarily from an increase in demand for direct broadcast satellite set-top boxes and to a lesser extent, growth in broadband modems. In the three months ended March 31, 2008 we experienced an anticipated seasonal decline in the demand for our Bluetooth, wireless LAN and mobile multimedia products. The increase in net revenue from our enterprise networking target market resulted primarily from growth in demand from our Ethernet switch products, offset in part by the expected reduction in demand attributable to our Gigabit Ethernet controller products.

We currently anticipate that total net revenue in the three months ending June 30, 2008 will be approximately \$1.075 billion to \$1.125 billion, as compared to the \$1.032 billion achieved in the three months ended March 31, 2008, in each case including royalty revenue at levels similar to those reported in the first quarter of 2008 and the fourth quarter of 2007 pursuant to a patent license agreement entered into in July 2007. We expect strong growth driven across virtually all product lines for our broadband communications target market, with particular strength in digital set-top boxes. We also anticipate returning to growth in our Bluetooth, wireless LAN and GPS solutions product lines for our mobile and wireless target market. For our enterprise networking target market, we expect modest growth in our Ethernet switch products, offset somewhat by an expected decline in our Gigabit Ethernet controller business.

We recorded rebates to certain customers of \$55.0 million and \$64.1 million in the three months ended March 31, 2008 and 2007, respectively. We account for rebates in accordance with Emerging Issues Task Force, or EITF, Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, and, accordingly, at the time of the sale we accrue 100% of the potential rebate as a reduction to revenue and do not apply a breakage factor. The amount of these reductions is based upon the terms included in our various rebate agreements. We anticipate that accrued rebates will vary in future periods based upon the level of overall sales to customers that participate in our rebate programs. We reverse the accrual of unclaimed rebate amounts as specific rebate programs end contractually or when we believe unclaimed rebates are no longer subject to payment and will not be paid. We reversed accrued rebates in the amount of \$15.3 million and \$2.4 million in the three months ended March 31, 2008 and 2007, respectively.

*Cost of Revenue and Gross Profit.* Cost of revenue includes the cost of purchasing finished silicon wafers manufactured by independent foundries, costs associated with our purchase of assembly, test and quality assurance services and packaging materials for semiconductor products, amortization of purchased technology, and manufacturing overhead, including costs of personnel and equipment associated with manufacturing support, product warranty costs, provisions for excess and obsolete inventories, and stock-based compensation expense for personnel engaged in manufacturing support.

The increase in absolute dollars of gross profit in the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 resulted primarily from the 14.5% increase in net revenue. Gross margin increased from 51.1% in the three months ended March 31, 2007 to 53.4% in the three months ended March 31, 2008. The primary factors that contributed to the increase in gross margin were: (i) royalty revenue in the amount of \$35.6 million and (ii) an increase in the reversal of rebates in the amount of \$12.9 million related to unclaimed rebates.

Gross margin has been and will likely continue to be impacted by our product mix and volume of product sales, including sales to high volume customers, royalty revenue, competitive pricing programs and rebates, fluctuations in silicon wafer costs and assembly, packaging and testing costs, competitive pricing requirements, product warranty costs, provisions for excess and obsolete inventories, the position of our products in their respective life cycles, and the introduction of products with lower margins, among other factors. We anticipate that our gross margin in the second quarter of 2008 will be slightly reduced as compared to the first quarter of 2008 as we continue to ramp a number of new products to new and existing customers. Typically our newly introduced products have lower gross margins until we commence volume production and launch lower cost revisions of such products enabling us to benefit from economies of scale and more efficient designs. Our gross margin may also be impacted by additional stock-based compensation expense and changes therein, as discussed below, and the amortization of purchased intangible assets related to future acquisitions.

*Research and Development and Selling, General and Administrative Expenses*

The following table presents research and development and selling, general and administrative expenses for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31, 2008		Three Months Ended March 31, 2007		Increase (Decrease)	% Change
	Amount	% of Net Revenue	Amount	% of Net Revenue		
(In thousands, except percentages)						
Research and development <sup>(1)</sup>	\$355,688	34.5%	\$300,810	33.4%	\$ 54,878	18.2%
Selling, general and administrative <sup>(1)</sup>	111,946	10.8	128,647	14.3	(16,701)	(13.0)

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

*Research and Development Expense.* Research and development expense consists primarily of salaries and related costs of employees engaged in research, design and development activities, including stock-based compensation expense. Research and development expense also includes costs related to engineering design tools and computer hardware, mask and prototyping costs, subcontracting costs and facilities expenses.

The increase in research and development expense in the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 resulted primarily from an increase of \$30.0 million in personnel-related expenses (excluding stock-based compensation expense). This increase is primarily attributable to an increase in headcount by 721 additional personnel (predominantly in the mobile and wireless products area) to 4,808, which represents a 17.6% increase over the same period in the previous year. There were increased mask and prototyping costs due to the continued transition of certain products to 65 nanometer process technology. These costs vary from period to period depending on the timing of development and tape-out of various products. We also experienced increases in costs related to engineering design tools and computer hardware that were attributable to the increase in headcount.

We anticipate that research and development expense will continue to increase in 2008 as we ready a number of design wins to go into production and over the long term as a result of growth in, and the diversification of, the markets we serve, new product opportunities, and any expansion into new markets and technologies. We anticipate that research and development expense in the three months ending June 30, 2008 will increase from the \$355.7 million incurred in the three months ended March 31, 2008.

We remain committed to significant research and development efforts to extend our technology leadership in the wired and wireless communications markets in which we operate. We currently hold over 2,600 U.S. and 1,200 foreign patents, and we maintain an active program of filing for and acquiring additional U.S. and foreign patents in wired and wireless communications and other fields.

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

The decrease in selling, general and administrative expense in the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 resulted primarily from a decrease of \$18.1 million in legal fees, partially offset by an increase of \$8.2 million in personnel-related expenses (excluding stock-based compensation expense). The increase in personnel-related expenses is primarily attributable to an increase of 142 additional personnel to 1,260, which represents a 12.7% increase over the same period in the previous year. Legal fees fluctuate from period to period due to the nature, scope, timing and costs of the matters in litigation from time to time. We received \$8.6 million for the reimbursement of legal fees related to certain litigation with Qualcomm, which is reflected as a reduction of legal expense included in selling, general and administrative expense in the three months ended March 31, 2008.

We maintain insurance policies that may limit our exposure and enable us to recover a portion of our legal fees paid related to our equity award review and related securities litigation and government investigations. From

inception of the securities litigation and related government investigations through March 31, 2008, we have recovered legal expenses in the amount of \$27.8 million, of which we have received \$13.7 million and recorded \$14.1 million in receivables, under these insurance policies. Of this amount, \$10.6 million was recorded as a reduction in our selling, general and administrative expenses in our unaudited condensed consolidated statement of income for the three months ended March 31, 2008. In certain limited circumstances, all or portions of the amounts recovered from our insurance carriers may be required to be repaid. We regularly evaluate the need to record a liability for potential future repayments in accordance with SFAS No. 5, *Accounting for Contingencies*, or SFAS 5. As of March 31, 2008 we have not recorded a liability in connection with these potential insurance repayment provisions.

For further discussion of litigation matters, see Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

We anticipate that selling, general and administrative expense will increase over the long term resulting from expansion of our operations through periodic changes in our infrastructure, acquisition and integration activities, international operations, and current and future litigation. We anticipate that selling, general and administrative expense in the three months ending June 30, 2008 will be higher as compared to the \$111.9 million incurred in the three months ended March 31, 2008.

**Stock-Based Compensation Expense**

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

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Cost of revenue	\$ 5,465	\$ 5,814
Research and development	78,706	78,431
Selling, general and administrative	29,065	32,626
	<u>\$113,236</u>	<u>\$116,871</u>

The amount of unearned stock-based compensation currently estimated to be expensed from 2008 through 2011 related to unvested share-based payment awards at March 31, 2008 is \$853.9 million. Of this amount, \$305.4 million, \$306.6 million, \$182.2 million and \$59.7 million are currently estimated to be recorded in the remainder of 2008, and in 2009, 2010 and 2011, respectively. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately 1.4 years. Approximately 93.0% of the total unearned stock-based compensation as of March 31, 2008 will be expensed by the end of 2010.

The decrease in unearned stock-based compensation of \$94.4 million at March 31, 2008 from the \$948.3 million balance at December 31, 2007 was primarily the result of stock-based compensation of \$113.2 million expensed in the three months ended March 31, 2008. If there are any modifications or cancellations of the underlying unvested equity awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees or assume unvested equity awards in connection with acquisitions.

We expect to grant employee stock options to purchase approximately 5.1 million shares of our common stock and to award approximately 14.1 million restricted stock units in the three months ending June 30, 2008 as part of our regular annual equity compensation review program. We currently expect to recognize approximately \$440 million of stock-based compensation expense related to those awards over their respective service periods. This estimate has been calculated using the closing price of our Class A common stock on April 23, 2008. To the extent that our stock price differs on the date the equity awards are granted and/or the assumptions used to value our stock awards change, the actual amount of the stock-based compensation expense we recognize may vary significantly from this estimate. This unearned stock-based compensation will be amortized ratably over the service

periods of the underlying stock options and restricted stock units, generally 48 months and 16 quarters, respectively.

**Amortization of Purchased Intangible Assets**

The following table presents details of the amortization of purchased intangible assets *included* in each expense category:

	Three Months Ended March 31,	
	2008	2007
(In thousands)		
Cost of revenue	\$3,935	\$3,050
Operating expense	183	329
	<u>\$4,118</u>	<u>\$3,379</u>

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

	Purchased Intangible Assets Amortization by Year					
	2008	2009	2010	2011	2012 and Thereafter	Total
(In thousands)						
Cost of revenue	\$11,803	\$15,264	\$12,527	\$1,023	\$ —	\$40,617
Operating expense	550	622	600	100	—	1,872
	<u>\$12,353</u>	<u>\$15,886</u>	<u>\$13,127</u>	<u>\$1,123</u>	<u>\$ —</u>	<u>\$42,489</u>

**In-Process Research and Development**

In the three months ended March 31, 2008 we recorded IPR&D of \$10.9 million related to our acquisition of Sunext Design, Inc. The amount allocated to IPR&D was determined through established valuation techniques used in the high technology industry and was expensed upon acquisition as it was determined that the underlying projects had not reached technological feasibility and no alternative future uses existed.

**Settlement Costs**

In April 2008 we entered into a settlement with the SEC relating to the previously-disclosed SEC investigation of Broadcom’s historical stock option granting practices. Without admitting or denying the SEC’s allegations, we agreed to pay a civil penalty of \$12.0 million, which we recorded as a settlement cost in the three months ended March 31, 2008. The settlement is subject to approval by the United States District Court for the Central District of California. In addition, we settled a patent infringement claim for \$3.8 million in the three months ended March 31, 2008. For further discussion of litigation matters, see Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

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

The following table presents interest and other income, net, for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31, 2008		Three Months Ended March 31, 2007		Increase (Decrease)	%
	Amount	% of Net Revenue	Amount	% of Net Revenue		
(In thousands, except percentages)						
Interest income, net	\$20,104	1.9%	\$37,008	4.1%	\$(16,904)	(45.7)%
Other income (expense), net	924	0.1	(1,409)	(0.1)	2,333	165.6

Interest income, net, reflects interest earned on cash and cash equivalents and marketable securities balances. Other income (expense), net, primarily includes recorded gains and losses on strategic investments as well as gains

and losses on foreign currency transactions and dispositions of property and equipment. The decrease in interest income, net, was the result of the overall decrease in market interest rates and a decrease in our average cash and marketable securities balances. Our cash and marketable securities balances decreased from \$2.563 billion at March 31, 2007 to \$2.206 billion at March 31, 2008, primarily due to repurchases of shares of our Class A common stock. The average interest rates earned for the three months ended March 31, 2008 and 2007 were 3.48% and 5.22%, respectively.

**Provision for Income Taxes**

We recorded tax provisions of \$3.2 million and \$3.6 million for the three months ended March 31, 2008 and March 31, 2007, respectively. Our effective tax rates were 4.2% and 5.5% for the three months ended March 31, 2008 and March 31, 2007, respectively. The difference between our effective tax rates and the 35% federal statutory rate resulted primarily from foreign earnings taxed at rates lower than the federal statutory rate.

We utilize the asset and liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes*, or SFAS 109. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. SFAS 109 further states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of our recent cumulative losses in the U.S. and certain foreign jurisdictions, our U.S. tax losses after tax deductions for stock-based compensation, and the full utilization of our loss carryback opportunities, we have concluded that a full valuation allowance should be recorded in the U.S. and certain foreign jurisdictions. In certain other foreign jurisdictions where we do not have cumulative losses, we had net deferred tax assets of \$4.2 million and \$3.3 million, at March 31, 2008 and December 31, 2007, respectively, in accordance with SFAS 109.

We file federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2004 through 2007 tax years generally remain subject to examination by federal and most state tax authorities. In significant foreign jurisdictions, the 2001 through 2007 tax years generally remain subject to examination by tax authorities.

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

We operate under tax holidays in Singapore, which were recently extended through March 31, 2014. The tax holidays are conditional upon our meeting certain employment and investment thresholds. We believe we have met these employment and investment thresholds for prior periods, and that we will continue to meet all requirements for the duration of the holidays.

**Liquidity and Capital Resources**

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

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>	<u>Increase</u> <u>(Decrease)</u>
		(In thousands)	
Working capital	\$2,055,109	\$ 2,323,716	\$(268,607)
Cash and cash equivalents <sup>(1)</sup>	\$2,001,269	\$ 2,186,572	\$(185,303)
Short-term marketable securities <sup>(1)</sup>	90,033	141,728	(51,695)
Long-term marketable securities	114,456	75,352	39,104
	<u>\$2,205,758</u>	<u>\$ 2,403,652</u>	<u>\$(197,894)</u>

(1) Included in working capital.

Our working capital, cash and cash equivalents and marketable securities decreased in the three months ended March 31, 2008 primarily due to repurchases of shares of our Class A common stock, offset by cash provided by operations. See the summary of cash, cash equivalents, short and long-term marketable securities by major security type and discussion of market risk that follows in Item 3. *Quantitative and Qualitative Disclosures about Market Risk*.

*Cash Provided and Used in the Three Months Ended March 31, 2008 and 2007.* Cash and cash equivalents decreased to \$2.001 billion at March 31, 2008 from \$2.187 billion at December 31, 2007 as a result of cash used in financing and investing activities (primarily for repurchases of our Class A common stock), offset in part by cash provided by operating activities.

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Cash provided by operating activities	\$ 239,068	\$ 244,656
Cash used in investing activities	(32,823)	(5,919)
Cash used in financing activities	(391,548)	(368,228)
Net decrease in cash and cash equivalents	\$ (185,303)	\$ (129,491)
Cash and cash equivalents at beginning of period	<u>\$2,186,572</u>	<u>\$2,158,110</u>
Cash and cash equivalents at end of period	<u>\$2,001,269</u>	<u>\$2,028,619</u>

In the three months ended March 31, 2008 our operating activities provided \$239.1 million in cash. This was primarily the result of \$74.3 million in net income, \$145.5 million in net non-cash operating expenses and \$19.3 million in net cash provided by changes in operating assets and liabilities. Non-cash items included in net income in the three months ended March 31, 2008 included depreciation and amortization, stock-based compensation expense, amortization of purchased intangible assets and IPR&D. In the three months ended March 31, 2007 our operating activities provided \$244.7 million in cash. This was primarily the result of \$61.0 million in net income, \$138.0 million in net non-cash operating expenses and \$45.7 million in net cash provided by changes in operating assets and liabilities. Non-cash items included in net income in the three months ended March 31, 2007 consist of depreciation and amortization, stock-based compensation expense, amortization of purchased intangible assets, IPR&D, impairment of intangible assets and loss on strategic investments.

Accounts receivable decreased \$6.6 million from \$369.0 million at December 31, 2007 to \$362.4 million at March 31, 2008. Our days sales outstanding decreased from 32.7 days at December 31, 2007 to 32.0 days at March 31, 2008, driven by improved linearity of product shipments and the timing of a large royalty payment. We typically bill customers on an open account basis subject to our standard net thirty day payment terms. If, in the longer term, our revenue increases, it is likely that our accounts receivable balance and days sales outstanding will also increase. Our accounts receivable could also increase if customers delay their payments or if we grant extended payment terms to customers.

Inventories decreased \$9.9 million from \$231.3 million at December 31, 2007 to \$221.4 million at March 31, 2008. Our inventory days on hand decreased from 43.1 days at December 31, 2007 to 41.9 days at March 31, 2008. In the future, our inventory levels will continue to be determined based upon the level of purchase orders we receive and the stage at which our products are in their respective product life cycles, our ability, and the ability of our customers, to manage inventory under hubbing arrangements, and competitive situations in the marketplace. Such considerations are balanced against the risk of obsolescence or potentially excess inventory levels.

Investing activities used cash of \$32.8 million in the three months ended March 31, 2008, which was primarily the result of the purchase of \$25.7 million of capital equipment mostly to support our research and development efforts, \$9.6 million in net cash paid for the acquisition of Sunext Design, \$10.1 million related to contingent consideration paid for certain performance goals met and accrued during 2007, and the purchase of \$0.4 million of strategic investments, which was offset in part by \$13.0 million provided by the net proceeds from sales and maturities of marketable securities. Investing activities used cash of \$5.9 million in three months ended March 31, 2007, which was primarily the result of the purchase of \$63.9 million of capital equipment to support

our operations and the build out and relocation of our facilities in Irvine, California, \$61.7 million net cash paid for the acquisition of LVL7, and the purchase of \$3.5 million of strategic investments, which was offset in part by \$109.2 million provided by the net proceeds from maturities of marketable securities and proceeds of \$14.0 million received in connection with an escrow settlement from our 2005 acquisition of Siliquent Technologies, Inc. The reduction of purchases of property and equipment was primarily due to the previous year's build out and relocation of our facilities in Irvine, California.

Our financing activities used \$391.5 million in cash in the three months ended March 31, 2008, which was primarily the result of \$391.7 million in repurchases of shares of our Class A common stock pursuant to the share repurchase program implemented in November 2007. Our financing activities used \$368.2 million in cash in the three months ended March 31, 2007, which was primarily the result of \$425.1 million in repurchases of shares of our Class A common stock pursuant to a share repurchase program implemented in February 2007, offset in part by \$56.8 million in net proceeds received from issuances of common stock.

In November 2007 the Board of Directors authorized a new program to repurchase shares of our Class A common stock having an aggregate value of up to \$1.0 billion depending on market conditions and other factors. Repurchases under this program may be made at any time and from time to time during the period that commenced November 19, 2007 and continues through and including December 31, 2008. From the commencement of the current program through March 31, 2008, we repurchased a total of 25.7 million shares of Class A common stock at a weighted average price of \$21.66 per share. As of March 31, 2008, \$442.5 million remained authorized and available for repurchase of shares of our Class A common stock under this plan.

Due to the decrease in the price of our Class A common stock as compared to the previous year, fewer stock options were exercised by employees, and we received reduced proceeds from the exercise of stock options, in the three months ended March 31, 2008 as compared with the three months ended March 31, 2007. The timing and number of stock option exercises and the amount of cash proceeds we receive through those exercises are not within our control, and in the future we may not generate as much cash from the exercise of stock options as we have in the past. Moreover, it is now our practice to issue a combination of restricted stock units and stock options to employees and, in some cases solely restricted stock units, which will reduce the number of stock options available for exercise in the future. Unlike the exercise of stock options, the issuance of shares upon vesting of restricted stock units does not result in any cash proceeds to Broadcom and requires the use of cash, as we currently allow employees to elect to have a portion of the shares issued upon vesting of restricted stock units withheld to satisfy minimum statutory withholding taxes, which we then pay in cash to the appropriate tax authorities on each employee's behalf.

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

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

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

- the overall levels of sales of our products, royalty revenue and gross profit margins;
- our business, product, capital expenditure and research and development plans, and product and technology roadmaps;
- the market acceptance of our products;
- repurchases of our Class A common stock;
- required levels of research and development and other operating costs;
- litigation expenses, settlements and judgments;
- volume price discounts and customer rebates;
- the levels of inventory and accounts receivable that we maintain;
- acquisitions of other businesses, assets, products or technologies;
- royalties payable by or to us;
- changes in our compensation policies;
- the issuance of restricted stock units and the related cash payments we make for withholding taxes due from employees during 2008 and possibly during future years;
- capital improvements for new and existing facilities;
- technological advances;
- our competitors' responses to our products and our anticipation of and responses to their products;
- our relationships with suppliers and customers;
- the availability and cost of sufficient foundry, assembly and test capacity and packaging materials;
- the level of exercises of stock options and stock purchases under our employee stock purchase plan; and
- general economic conditions and specific conditions in the semiconductor industry and wired and wireless communications markets, including the effects of recent international conflicts and related uncertainties.

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

*Off-Balance Sheet Arrangements.* At March 31, 2008 we had no material off-balance sheet arrangements.

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

#### **Investment and Interest Rate Risk**

At March 31, 2008 we had \$2.206 billion in cash, cash equivalents and marketable securities. We maintain an investment portfolio of various security holdings, types and maturities. Pursuant to SFAS No. 157, *Fair Value Measurements*, or SFAS 157, the fair value of our cash equivalents and marketable securities is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. We do not use derivative financial instruments. We place our cash investments in instruments that meet credit quality standards, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. At March 31, 2008 all of our investments were rated AAA, Aaa, A-1 or P-1 by the major credit rating agencies.

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

	<u>Cash and Cash Equivalents</u>	<u>Short-Term Marketable Securities</u>	<u>Long-Term Marketable Securities</u>	<u>Total</u>
	(In thousands)			
<b>March 31, 2008</b>				
Time deposits	\$ 629,722	\$ —	\$ —	\$ 629,722
U.S. Treasury and agency money market funds	579,300	—	—	579,300
U.S. Treasury and agency obligations	239,490	45,079	109,210	393,779
Institutional money market funds	348,881	—	—	348,881
Commercial paper and corporate bonds	151,663	44,954	5,246	201,863
Cash	52,213	—	—	52,213
	<u>\$2,001,269</u>	<u>\$ 90,033</u>	<u>\$ 114,456</u>	<u>\$2,205,758</u>
<b>December 31, 2007</b>				
Time deposits	\$ 850,018	\$ —	\$ —	\$ 850,018
U.S. Treasury and agency money market funds	755,000	—	—	755,000
Institutional money market funds	425,756	—	—	425,756
Commercial paper and corporate bonds	77,313	89,630	5,229	172,172
U.S. Treasury and agency obligations	33,706	52,098	70,123	155,927
Cash	44,779	—	—	44,779
	<u>\$2,186,572</u>	<u>\$ 141,728</u>	<u>\$ 75,352</u>	<u>\$2,403,652</u>

We account for our investment in debt and equity instruments under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and FASB Staff Position, or FSP, SFAS No. 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. The investments are adjusted for amortization of premiums and discounts to maturity and such amortization is included in interest income. Historically we classified our cash equivalents and marketable securities as held-to-maturity. Effective February 2008 we reclassified our cash equivalents and marketable securities as available-for-sale and recorded a net unrealized gain in the amount of \$0.2 million in the three months ended March 31, 2008. Cash equivalents and marketable securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of shareholders' equity, net of tax. We follow the guidance provided by EITF No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net, in the condensed consolidated statements of income. The fair value of cash equivalents and marketable securities is determined based on quoted market prices for those securities.

Our investment policy for marketable securities requires that all securities mature in three years or less, with a weighted average maturity of no longer than 18 months.

Our cash, cash equivalents, short and long-term marketable securities had maturities as follows:

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
	(In thousands)	
<b>Maturity</b>		
Less than one year	\$2,091,302	\$ 2,328,300
One to two years	72,646	37,268
Two to three years	41,810	38,084
	<u>\$2,205,758</u>	<u>\$ 2,403,652</u>

The fair value of our cash equivalents and marketable securities fluctuates based on changes in market conditions and interest rates; however, given the short-term maturities, we do not believe these instruments are subject to significant market or interest rate risk.

Investments in fixed rate, interest-earning instruments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to rising interest rates. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if the decline in fair value of our publicly traded debt or equity investments is judged to be other-than-temporary. We may suffer losses in principal if we are forced to sell securities that have declined in market value.

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

The subprime-mortgage crisis that began last summer has had widespread negative effects on the financial markets. The credit concerns and lack of liquidity in the short-term funding markets have reinforced our bias towards U.S. Treasury and other government securities and high credit quality commercial paper and time deposits. If the global credit markets continue to deteriorate, our investment portfolio may be negatively impacted, particularly in the form of declining yields as investors seek more secure investments.

We also have invested in privately held companies, the majority of which can still be considered to be in the start-up or development stage. We make investments in key strategic businesses and other industry participants to establish strategic relationships, expand existing relationships, and achieve a return on our investment. These investments are inherently risky, as the markets for the technologies or products these companies have under development are typically in early stages and may never materialize. Likewise, the development projects of these companies may not be successful. In addition, early stage companies often fail for various other reasons. Consequently, we could lose our entire investment in these companies. As of March 31, 2008 the carrying and fair value of our strategic investments was \$4.3 million.

#### **Exchange Rate Risk**

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Currently, sales to customers and arrangements with third-party manufacturers provide for pricing and payment in United States dollars, and, therefore, are not subject to exchange rate fluctuations. Increases in the value of the United States dollar relative to other currencies could make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the United States dollar relative to other currencies could result in our suppliers raising their prices to continue doing business with us. A small percentage of our international operational expenses is denominated in foreign currencies. Exchange rate volatility could negatively or positively impact those operating costs. Fluctuations in currency exchange rates could have a greater effect on our business in the future.

#### **Item 4. Controls and Procedures**

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act, is recorded, processed, summarized

and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures and implementing controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of March 31, 2008, the end of the period covered by this Report.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Inherent Limitations on Internal Control**

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

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The information set forth under Note 7 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see "Risk Factors" immediately below.

### **Item 1A. Risk Factors**

*Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere, and the other information contained, in this Report and in our other filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2007 and subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Broadcom, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price for our Class A common stock will likely decline, and you may lose all or part of your investment.*

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

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

- the overall cyclical nature of, and changing economic, political and market conditions affecting the semiconductor industry and wired and wireless communications markets, including without limitation seasonality in sales of consumer products into which our products are incorporated;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;
- the gain or loss of a key customer, design win or order;
- our ability to scale our operations in response to changes in demand for our existing products and services or demand for new products requested by our customers;
- our dependence on a few significant customers for a substantial portion of our revenue;
- our ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a cost-effective and timely manner;
- our ability to timely and accurately predict market requirements and evolving industry standards and to identify and capitalize upon opportunities in new markets;
- intellectual property disputes, customer indemnification claims and other types of litigation risks;
- our ability to timely and effectively transition to smaller geometry process technologies or achieve higher levels of design integration;
- our ability to retain, recruit and hire key executives, technical personnel and other employees in the positions and numbers, with the experience and capabilities, and at the compensation levels that we need to implement our business and product plans;
- the rate at which our present and future customers and end users adopt our technologies and products in our target markets;
- changes in our product or customer mix;
- the availability and pricing of third party semiconductor foundry, assembly and test capacity and raw materials;
- competitive pressures and other factors such as the qualification, availability and pricing of competing products and technologies and the resulting effects on sales and pricing of our products;
- the volume of our product sales and pricing concessions on volume sales; and
- the effects of public health emergencies, natural disasters, terrorist activities, international conflicts and other events beyond our control.

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

Additionally, as an increasing number of our chips are being incorporated into consumer products, such as desktop and notebook computers, cellular phones and other mobile communication devices, other wireless-enabled consumer electronics, and satellite and digital cable set-top boxes, we anticipate greater seasonality and fluctuations in the demand for our products, which may result in greater variations in our quarterly operating results.

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

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

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

Additionally, in the recent past, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in the wired and wireless communications markets, the ongoing effects of the war in Iraq, recent international conflicts and terrorist and military activity, and the impact of natural disasters and public health emergencies. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to slow spending on our products and services, which would delay and lengthen sales cycles. We experienced slowdowns in orders in the second half of 2006 that we believe were attributable in substantial part to excess inventory held by certain of our customers, and we may experience a similar slowdown in the future. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, worldwide, or in the semiconductor industry or the wired and wireless communications markets. If the economy or markets in which we operate do not continue at their present levels, our business, financial condition and results of operations will likely be materially and adversely affected. Additionally, the combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could have a synergistic negative impact on the results of our operations.

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

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Customers can generally cancel, change or defer purchase orders on short notice without incurring a significant penalty. In the recent past, some of our customers have developed excess inventories of their own products and have, as a consequence, deferred purchase orders for our products. We currently do not have the ability to accurately predict what or how many products our customers will need in the future. Anticipating demand is difficult because our customers face volatile pricing and unpredictable demand for their own products, are increasingly focused on cash preservation and tighter inventory management, and may be involved in legal proceedings that could affect their ability to buy our products. Our ability to accurately forecast customer demand may also be impaired by the delays inherent in our lengthy sales cycle. After we have developed and delivered a product to a customer, the customer will usually test and evaluate our product prior to designing its own equipment to incorporate our product. Our customers may need three to more than nine months to test, evaluate and adopt our product and an additional three to more than twelve months to begin volume production of equipment that incorporates our products. Due to this lengthy sales cycle, we may experience significant delays from the time we increase our operating expenses and make investments in inventory until the time that we generate revenue from these products. It is possible that we may never generate any revenue from these products after incurring such expenditures. Even if a customer selects our product to incorporate into its equipment, we have no assurance that the customer will ultimately bring its product to market or that such effort by our customer will be successful. The delays inherent in our lengthy sales cycle increase the risk that a customer will decide to cancel or curtail, reduce or delay its product plans. If we incur significant research and development expenses, marketing expenses and investments in inventory in the future that we are not able to recover, and we are not able to compensate for those expenses, our operating results could be adversely affected. In addition, as an increasing number of our chips are being incorporated into consumer products, we anticipate greater fluctuations in demand for our products, which makes it even more difficult to forecast customer demand.

We place orders with our suppliers based on forecasts of customer demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. Our forecasts are based on multiple assumptions, each of which may introduce error into our estimates. If we overestimate customer demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect to, if at all. As a result, we would hold excess or obsolete inventory, which would reduce our profit margins and adversely affect our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would forego revenue opportunities and potentially lose market share and damage our customer relationships. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect our profit margins, increase product obsolescence and restrict our ability to fund our operations. Furthermore, we generally recognize revenue upon shipment of products to a customer. If a customer refuses to accept shipped products or does not timely pay for these products, our revenue and financial results could be materially and adversely impacted.

We maintain inventory, or hubbing, arrangements with certain of our customers. Pursuant to these arrangements, we deliver products to a customer or a designated third party warehouse based upon the customer's projected needs, but do not recognize product revenue unless and until the customer reports that it has removed our product from the warehouse to incorporate into its end products. Historically we have had good visibility into customer requirements and shipments within a quarter. However, if a customer does not take our products under a hubbing arrangement in accordance with the schedule it originally provided us, our predicted future revenue stream could vary substantially from our forecasts and our results of operations could be materially and adversely affected. In addition, distributors and/or customers with hubbing arrangements provide us periodic reports regarding the product, price, quantity, and when products are shipped to their customer as well as the quantities of our products they still have in stock. For specialized shipping terms we may also rely on data provided by our freight forwarding providers. For our royalty revenue we also rely on data provided by our customers. Any error in

the data provided to us by customers, distributors or other third parties could lead to inaccurate reporting of our revenue, gross profit and net income. Additionally, since we own inventory that is physically located in a third party's warehouse, our ability to effectively manage inventory levels may be impaired, causing our total inventory turns to decrease, which could increase expenses associated with excess and obsolete product and negatively impact our cash flow.

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

To achieve our business objectives, we anticipate that we will need to continue to expand. Through internal growth and acquisitions, we significantly increased the scope of our operations and expanded our workforce from 2,580 full-time, contract and temporary employees as of December 31, 2002 to 6,518 full-time, contract and temporary employees as of March 31, 2008. Nonetheless, we may not be able to expand our workforce and operations in a sufficiently timely manner to respond effectively to changes in demand for our existing products and services or to the demand for new products requested by our customers. In that event, we may be unable to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected.

Conversely, if we expand our operations and workforce too rapidly in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expect, our business could be materially and adversely affected. We expect new product lines, which often require substantial research and development expenses to develop, to continue to account for a high percentage of our future revenue. However, some of the markets for these new products are immature and/or unpredictable or are new markets for Broadcom, and if these markets do not develop at the rates we originally anticipated or if we do not execute successfully, the rate of increase in our operating expenses may exceed the rate of increase, if any, in our revenue. Moreover, we may intentionally choose to increase the rate of our research and development expenses more rapidly than the increase in the rate of our revenue in the short term in anticipation of the longer term benefits we would derive from such investment. However, such benefits may never materialize or may not be as significant as we originally believed they would be. Also, if we experience a slowdown in the semiconductor industry or the wired and wireless communications markets in which we operate, we may not be able to scale back our operating expenses in a sufficiently timely or effective manner. In any such event, our business, financial condition and results of operations would be materially and adversely affected.

Our past growth has placed, and any future growth is expected to continue to place, a significant strain on our management personnel, systems and resources. To implement our current business and product plans, we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort. In the past we have implemented an enterprise resource planning system to help us improve our planning and management processes, and more recently we have implemented a new equity administration system to support our more complex equity programs as well as the adoption of SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R. We anticipate that we will also need to continue to implement a variety of new and upgraded operational and financial systems, including enhanced human resources management systems and a business-to-business solution, as well as additional procedures and other internal management systems. In general, the accuracy of information delivered by these systems may be subject to inherent programming quality. In addition, to support our growth, in March 2007 we relocated our headquarters and Irvine operations to new, larger facilities that have enabled us to centralize all of our Irvine employees and operations on one campus. We may also engage in other relocations of our employees or operations from time to time. Such relocations could result in temporary disruptions of our operations or a diversion of management's attention and resources. If we are unable to effectively manage our expanding operations, we may be unable to scale our business quickly enough to meet competitive challenges or exploit potential market opportunities, or conversely, we may scale our business too quickly and the rate of increase in our expenses may exceed the rate of increase in our revenue, either of which would materially and adversely affect our current or future business.

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

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

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

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

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

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

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

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

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

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

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

Sales to our five largest customers represented 36.6% and 46.0% of our net revenue in the three months ended March 31, 2008 and 2007, respectively. We expect that our largest customers will continue to account for a substantial portion of our net revenue in 2008 and for the foreseeable future. The identities of our largest customers and their respective contributions to our net revenue have varied and will likely continue to vary from period to period.

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

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

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

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

**Our operating results for 2006 and prior periods have been materially and adversely impacted as a result of the voluntary review of our past equity award practices reported in January 2007. Any related action by a governmental agency could result in civil or criminal sanctions against certain of our former officers, directors and/or employees and might result in such sanctions against us and/or certain of our current officers, directors and/or employees. Such matters, and the civil litigation relating to our past equity award practices or the January 2007 restatement of our financial statements for periods ended on or before March 31, 2006, could result in significant costs and the diversion of attention of our management and other key employees.**

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

In June 2006 we received an informal request for information from the staff of the Los Angeles regional office of the SEC regarding our historical option granting practices. In December 2006 we were informed that the SEC had issued a formal order of investigation in the matter. In July 2007 we received a "Wells Notice" from the SEC in connection with this investigation. Our Chairman of the Board of Directors and Chief Technical Officer, Dr. Henry Samueli, also received a Wells Notice at that time. In August 2007 our Senior Vice President, Business Affairs and General Counsel, David A. Dull, also received a Wells Notice. The Wells Notices provide notification that the staff of the SEC intends to recommend to the Commission that it bring a civil action against the recipients for possible violations of the securities laws. Under the process established by the SEC, recipients have the opportunity to respond in writing to a Wells Notice before the SEC staff makes any formal recommendation to the Commission regarding what action, if any, should be brought by the SEC. Dr. Samueli and Mr. Dull have provided written submissions to the SEC in response to the Wells Notices and may seek meetings with the SEC Staff.

In April 2008 the SEC brought a complaint against Broadcom alleging violations of the federal securities laws, and we entered into a settlement with the SEC. Without admitting or denying the SEC's allegations, we agreed to pay a civil penalty of \$12.0 million, which we recorded as a settlement cost in the three months ended March 31, 2008, and stipulated to an injunction against future violations of certain provisions of the federal securities laws. The settlement is subject to approval by the United States District Court for the Central District of California. If court approval is obtained, the settlement will conclude the SEC's investigation of this matter with respect to Broadcom. We do not know what, if any, actions the SEC may require individuals to take as part of the resolution of the investigation against them personally, but any such resolution could result in civil sanctions and/or fines against certain of our current or former officers, directors and/or employees, as well as potential bars against certain of our current or former officers, directors and/or employees serving as officers or directors of public companies.

Broadcom has also been informally contacted by the U.S. Attorney's Office for the Central District of California and has been asked to produce on a voluntary basis documents, many of which we previously provided to the SEC. In addition, we have produced documents pursuant to grand jury subpoenas. We are cooperating with the U.S. Attorney's Office in its investigation. The U.S. Attorney's Office continues to interview and seek grand jury testimony from present and former Broadcom employees, officers and directors as part of the investigation. Any action by the U.S. Attorney's Office or other governmental agency could result in criminal sanctions and/or fines against Broadcom and/or certain of our current or former officers, directors and/or employees.

Additionally, as discussed in Note 7 of Notes to Consolidated Financial Statements, included in Part I, Item 1 of this Report, we currently are engaged in civil litigation with parties that claim, among other allegations, that certain of our current and former directors and officers improperly dated stock option grants to enhance their own profits on the exercise of such options or for other improper purposes. Although we and the other defendants

intend to defend these claims vigorously, there are many uncertainties associated with any litigation, and we cannot assure you that these actions will be resolved without substantial costs and/or settlement charges. We have indemnification agreements with each of our present and former directors and officers, under which Broadcom is generally required to indemnify them against expenses, including attorneys' fees, judgments, fines and settlements, arising from the pending litigation (subject to certain exceptions, including liabilities arising from willful misconduct, from conduct knowingly contrary to the best interests of Broadcom, or conduct that is knowingly fraudulent or deliberately dishonest or results in improper personal benefit).

In addition, we rely on independent registered public accounting firms for opinions and consents to maintain current Exchange Act reports and to have effective Securities Act registration statements on file with the SEC, including our outstanding registration statements on Forms S-3, S-4 and S-8. The pending legal proceedings involving Ernst & Young LLP, or E&Y, our former independent registered public accounting firm, could adversely impact our ability to obtain any necessary consents in the future from E&Y or the ongoing effectiveness of opinions previously rendered by E&Y. In that event, we may be unable to timely file required Exchange Act reports with the SEC or to issue equity, including common stock pursuant to equity awards that comprise a significant portion of our compensation packages, under our outstanding or any new registration statements.

The resolution of the pending investigation by the U.S. Attorney's Office, the defense of our pending civil litigation, and the defense of any additional litigation that may arise relating to our past equity award practices or the January 2007 restatement of our prior financial statements could result in significant costs and diversion of the attention of management and other key employees. Although we maintain various insurance policies related to the risks associated with our business, including directors' and officers' insurance, we cannot assure you that the amount of our insurance coverage will be sufficient, that our insurance policies will provide coverage for the matters and circumstances described above or that portions of payments by our insurance companies previously made to us will not be required to be repaid to the insurance companies as these matters reach conclusion. Our business, financial position and results of operations may be materially and adversely affected to the extent that our insurance coverage fails to pay or reimburse all of the expenses and any judgments, fines or settlement costs that we may incur in connection with these matters or in the event we are required to repay amounts that were previously paid by our insurance companies.

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

Our success and future revenue growth will depend, in part, on our ability to protect our intellectual property. We primarily rely on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. Despite our efforts to protect our proprietary technologies and processes, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies and processes. We currently hold over 2,600 U.S. and 1,200 foreign patents and have filed more than 7,450 additional U.S. and foreign patent applications. However, we cannot assure you that any additional patents will be issued. Even if a new patent is issued, the claims allowed may not be sufficiently broad to protect our technology. In addition, any of our existing or future patents may be challenged, invalidated or circumvented. As such, any rights granted under these patents may not provide us with meaningful protection. We may not be able to obtain foreign patents or file pending applications corresponding to our U.S. patents and patent applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents. Some or all of our patents have in the past been licensed and likely will in the future be licensed to certain of our competitors through cross-license agreements. Moreover, because we have participated and continue to participate in developing various industry standards, we may be required to license some of our patents to others, including competitors, who develop products based on those standards.

Certain of our software (as well as that of our customers) may be derived from so-called "open source" software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available under licenses, such as the GNU General Public License, or GPL, which impose certain obligations on us in the event we were to distribute derivative works of the open source software. These

obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the forms of license customarily used to protect our intellectual property. In addition, there is little or no legal precedent for interpreting the terms of certain of these open source licenses, including the determination of which works are subject to the terms of such licenses. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event that the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work. With respect to our proprietary software, we generally license such software under terms that prohibit combining it with open source software as described above. Despite these restrictions, parties may combine Broadcom proprietary software with open source software without our authorization, in which case we might nonetheless be required to release the source code of our proprietary software.

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

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

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

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

Companies in and related to the semiconductor industry and the wired and wireless communications markets often aggressively protect and pursue their intellectual property rights. There are various intellectual property risks associated with developing and producing new products and entering new markets, and we may not be able to obtain, at reasonable cost and upon commercially reasonable terms, licenses to intellectual property of others that

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

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

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

Our future success depends to a significant extent upon the continued service of our key senior management personnel, including our co-founder, Chairman of the Board and Chief Technical Officer, Henry Samueli, Ph.D., our Chief Executive Officer, Scott A. McGregor, and other senior executives. We have employment agreements with Mr. McGregor and Eric K. Brandt, our Senior Vice President and Chief Financial Officer; however the agreements do not govern the length of their service. We do not have employment agreements with any other executives, or any other key employees, although we do have limited retention arrangements in place with certain executives. The loss of the services of Dr. Samueli, Mr. McGregor or certain other key senior management or technical personnel could materially and adversely affect our business, financial condition and results of operations. For instance, if certain of these individuals were to leave our company unexpectedly, or if they were to be barred

from serving as an officer or director as part of any resolution of the SEC proceedings, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity during the search for and while any such successor is integrated into our business and operations.

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

Equity awards generally comprise a significant portion of our compensation packages for all employees. During the time that our periodic filings with the SEC were not current, as a result of the voluntary review of our equity award practices, we were not able to issue shares of our common stock pursuant to equity awards. We cannot be certain that we will be able to continue to attract, retain and motivate employees if we are unable to issue shares of our common stock pursuant to equity awards for a sustained period or in the event of substantial declines in the price of our Class A common stock, such as the decline that commenced in the second half of 2007.

We have also modified our compensation policies by increasing cash compensation to certain employees and instituting awards of restricted stock units, while simultaneously reducing awards of stock options. This modification of our compensation policies and the applicability of the SFAS 123R requirement to expense the fair value of equity awards to employees have increased our operating expenses. We cannot be certain that the changes in our compensation policies will improve our ability to attract, retain and motivate employees. Our inability to attract and retain additional key employees and the increase in stock-based compensation expense could each have an adverse effect on our business, financial condition and results of operations.

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

We do not own or operate a fabrication facility. Five third-party foundry subcontractors located in Asia manufacture substantially all of our semiconductor devices in current production. Availability of foundry capacity has at times in the past been reduced due to strong demand. In addition, a recurrence of severe acute respiratory syndrome, or SARS, the occurrence of a significant outbreak of avian influenza among humans, or another public health emergency in Asia could further affect the production capabilities of our manufacturers by resulting in quarantines or closures. If we are unable to secure sufficient capacity at our existing foundries, or in the event of a quarantine or closure at any of these foundries, our revenues, cost of revenues and results of operations would be negatively impacted.

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

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

- a lack of guaranteed wafer supply, potential wafer shortages and higher wafer prices, particularly in light of the recent volatility in the commodities markets, which has the impact of increasing the cost of metals used in production of wafers;
- limited control over delivery schedules, quality assurance, manufacturing yields and production costs and other terms; and
- the unavailability of, or potential delays in obtaining access to, key process technologies.

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

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

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

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

Highly complex products such as the products that we offer frequently contain hardware or software defects or bugs when they are first introduced or as new versions are released. Our products have previously experienced, and may in the future experience, these defects and bugs. If any of our products contains defects or bugs, or has reliability, quality or compatibility problems, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers and attract new customers. In addition, these defects or bugs could interrupt or delay sales or shipment of our products to customers. To alleviate these problems, we may have to invest significant capital and other resources. Although our products are tested by us, our subcontractors, suppliers and customers, it is possible that new products will contain defects or bugs. If any of these problems are not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or field

replacement costs. These problems may divert our technical and other resources from other development efforts and could result in claims against us by our customers or others, including possible claims for consequential damages and/or lost profits. Moreover, we may lose, or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers. In addition, system and handset providers that purchase components may require that we assume liability for defects associated with products produced by their manufacturing subcontractors and require that we provide a warranty for defects or other problems which may arise at the system level.

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

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

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

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

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

deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations.

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

**Our acquisition strategy may result in unanticipated accounting charges or otherwise adversely affect our results of operations, and result in difficulties in assimilating and integrating the operations, personnel, technologies, products and information systems of acquired companies or businesses, or be dilutive to existing shareholders.**

A key element of our business strategy involves expansion through the acquisitions of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. Between January 1, 1999 and March 31, 2008, we acquired 38 companies and certain assets of three other businesses. We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the purchase or sale of assets, including tangible and intangible assets such as intellectual property.

Acquisitions may require significant capital infusions, typically entail many risks, and could result in difficulties in assimilating and integrating the operations, personnel, technologies, products and information systems of acquired companies or businesses. We have in the past and may in the future experience delays in the timing and successful integration of an acquired company's technologies and product development through volume production, unanticipated costs and expenditures, changing relationships with customers, suppliers and strategic partners, or contractual, intellectual property or employment issues. In addition, key personnel of an acquired company may decide not to work for us. The acquisition of another company or its products and technologies may also require us to enter into a geographic or business market in which we have little or no prior experience. These challenges could disrupt our ongoing business, distract our management and employees, harm our reputation and increase our expenses. These challenges are magnified as the size of the acquisition increases. Furthermore, these challenges would be even greater if we acquired a business or entered into a business combination transaction with a company that was larger and more difficult to integrate than the companies we have historically acquired.

Acquisitions may require large one-time charges and can result in increased debt or contingent liabilities, adverse tax consequences, additional stock-based compensation expense, and the recording and later amortization of amounts related to certain purchased intangible assets, any of which items could negatively impact our results of operations. In addition, we may record goodwill in connection with an acquisition and incur goodwill impairment charges in the future. Any of these charges could cause the price of our Class A common stock to decline. Beginning January 1, 2009, the accounting for future business combinations will change. We expect that the new requirements will have an impact on our consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after the effective date.

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

We cannot assure you that we will be able to consummate any pending or future acquisitions or that we will realize any anticipated benefits from these acquisitions. We may not be able to find suitable acquisition

opportunities that are available at attractive valuations, if at all. Even if we do find suitable acquisition opportunities, we may not be able to consummate the acquisitions on commercially acceptable terms, and any decline in the price of our Class A common stock may make it significantly more difficult and expensive to initiate or consummate additional acquisitions.

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

We currently obtain substantially all of our manufacturing, assembly and testing services from suppliers located outside the United States. In addition, 37.4% of our net revenue in the three months ended March 31, 2008 was derived from sales to independent customers outside the United States, excluding foreign subsidiaries or manufacturing subcontractors of customers that are headquartered in the United States. We also frequently ship products to our domestic customers' international manufacturing divisions and subcontractors. Products shipped to international destinations, primarily in Asia, represented 84.8% of our net revenue in the three months ended March 31, 2008. We also undertake design and development activities in Belgium, Canada, China, Denmark, France, Greece, India, Israel, Japan, Korea, the Netherlands, Spain, Taiwan and the United Kingdom, among other locations. In addition, we undertake various sales and marketing activities through regional offices in a number of countries. We intend to continue to expand our international business activities and to open other design and operational centers abroad. The continuing effects of the war in Iraq and terrorist attacks in the United States and abroad, the resulting heightened security, and the increasing risk of extended international military conflicts may adversely impact our international sales and could make our international operations more expensive. International operations are subject to many other inherent risks, including but not limited to:

- political, social and economic instability;
- exposure to different business practices and legal standards, particularly with respect to intellectual property;
- natural disasters and public health emergencies;
- nationalization of business and blocking of cash flows;
- trade and travel restrictions;
- the imposition of governmental controls and restrictions and unexpected changes in regulatory requirements;
- burdens of complying with a variety of foreign laws;
- import and export license requirements and restrictions of the United States and each other country in which we operate;
- foreign technical standards;
- changes in taxation and tariffs;
- difficulties in staffing and managing international operations;
- fluctuations in currency exchange rates;
- difficulties in collecting receivables from foreign entities or delayed revenue recognition; and
- potentially adverse tax consequences.

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

We currently operate under tax holidays and favorable tax incentives in certain foreign jurisdictions. For instance, in Singapore we operate under tax holidays that reduce our taxes in that country on certain non-investment income. Such tax holidays and incentives often require us to meet specified employment and investment criteria in such jurisdictions. However, we cannot assure you that we will continue to meet such criteria

or enjoy such tax holidays and incentives, or realize any net tax benefits from tax holidays or incentives. If any of our tax holidays or incentives are terminated, our results of operations may be materially and adversely affected.

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

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

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

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

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

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Over time, controls may become inadequate because changes in conditions or deterioration in the degree of compliance with policies or procedures may occur. In addition, we may reassess the implementation or testing of certain of our current controls as a result of the recent release of Public Company Accounting Oversight Board Auditing Standard No. 5, which may lead to modifications in such controls. These modifications could affect the overall effectiveness or evaluation of the control system in the future by us or our independent registered public accounting firm. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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

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

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

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

**We depend on third-party subcontractors to assemble, obtain packaging materials for, and test substantially all of our current products. If we lose the services of any of our subcontractors or if these subcontractors are unable to obtain sufficient packaging materials, shipments of our products may be disrupted, which could harm our customer relationships and adversely affect our net sales.**

We do not own or operate an assembly or test facility. Eight third-party subcontractors located in Asia assemble, obtain packaging materials for, and test substantially all of our current products. Because we rely on third-party subcontractors to perform these functions, we cannot directly control our product delivery schedules and quality assurance. This lack of control has resulted, and could in the future result, in product shortages or quality assurance problems that could delay shipments of our products or increase our manufacturing, assembly or testing costs.

In the past we and others in our industry experienced a shortage in the supply of packaging substrates that we use for our products. If our third-party subcontractors are unable to obtain sufficient packaging materials for our products in a timely manner, we may experience a significant product shortage or delay in product shipments, which could seriously harm our customer relationships and materially and adversely affect our net sales. Additionally, the recent volatility in the commodities markets could significantly increase our substrate costs.

We do not have long-term agreements with any of our assembly or test subcontractors and typically procure services from these suppliers on a per order basis. If any of these subcontractors experiences capacity constraints or financial difficulties, suffers any damage to its facilities, experiences power outages or any other disruption of assembly or testing capacity, or is unable to obtain sufficient packaging materials for our products, 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 damage our customer relationships and materially and adversely affect our results of operations. We are continuing to develop relationships with additional third-party

subcontractors to assemble and test our products. However, even if we use these new subcontractors, we will continue to be subject to all of the risks described above.

**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 January 1, 2002 our Class A common stock has traded at prices as low as \$6.35 and as high as \$50.00 per share. Fluctuations have occurred and may continue to occur in response to various factors, many of which we cannot control, including:

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

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

Due to the nature of our compensation programs, most of our executive officers regularly sell shares of our common stock each quarter or otherwise periodically, often pursuant to trading plans established under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. As a result, sales of shares by our executive officers may not be indicative of their respective opinions of Broadcom's performance at the time of sale or of our potential future performance. Nonetheless, the market price of our stock may be affected by sales of shares by our executive officers.

**Our co-founders, 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 March 31, 2008 our co-founders, directors, executive officers and their respective affiliates beneficially owned 13.8% of our outstanding common stock and held 59.2% of the total voting power held by our shareholders. Accordingly, these shareholders currently have enough voting power to control the outcome of matters that require the approval of our shareholders. These matters include the election of our Board of Directors, the issuance of additional shares of Class B common stock, and the approval of most significant corporate transactions, including certain mergers and consolidations and the sale of substantially all of our assets. In particular, as of March 31, 2008 our two founders, Dr. Henry T. Nicholas III, who is no longer an officer or director of Broadcom, and Dr. Henry Samueli, our Chairman of the Board and Chief Technical Officer, beneficially owned a total of 12.8% of our outstanding common stock and held 58.5% of the total voting power held by our shareholders. Because of their significant voting stock ownership, we will not be able to engage in certain transactions, and our shareholders will not be able to effect certain actions or transactions, without the approval of one or both of these shareholders. These actions and transactions include changes in the composition of our Board of Directors, certain mergers, and the sale of control of our company by means of a tender offer, open market purchases or other purchases of our Class A common stock, or otherwise. Repurchases of shares of our Class A common stock under our share repurchase program will result in an increase in the total voting power of our co-founders, directors, executive officers and their affiliates, as well as other continuing shareholders.

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

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

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

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

**Changes in current or future laws or regulations or accounting rules or the imposition of new laws or regulations by federal or state agencies or foreign governments could impede the sale of our products or otherwise harm our business.**

Changes in current laws or regulations or accounting rules (including the possible adoption at some undetermined future date of International Financial Reporting Standards in lieu of U.S. GAAP) applicable to us or the imposition of new laws and regulations in the United States or elsewhere could materially and adversely affect our business, financial condition and results of operations.

The effects of regulation on our customers or the industries in which they operate may materially and adversely impact our business. For example, the Federal Communications Commission has broad jurisdiction over each of our target markets in the United States. Although current FCC regulations and the laws and regulations of other federal or state agencies are not directly applicable to our products, they do apply to much of the equipment into which our products are incorporated. FCC regulatory policies that affect the ability of cable or satellite

operators or telephone companies to offer certain services to their customers or other aspects of their business may impede sales of our products in the United States. For example, in the past we have experienced delays when products incorporating our chips failed to comply with FCC emissions specifications.

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

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

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

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

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

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

In the three months ended March 31, 2008, we issued an aggregate of 1.3 million shares of Class A common stock upon conversion of a like number of shares of Class B common stock. Each share of Class B common stock is convertible at any time into one share of Class A common stock at the option of the holder. The offers and sales of those securities were effected without registration in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

**Issuer Purchases of Equity Securities**

In November 2007 the Board of Directors authorized a new program to repurchase shares of our Class A common stock having an aggregate value of up to \$1.0 billion depending on market conditions and other factors. Repurchases under this program may be made at any time and from time to time during the period that commenced November 19, 2007 and continues through and including December 31, 2008. As of March 31, 2008, \$442.5 million remained authorized and available for the repurchase of shares of our Class A common stock under this plan.

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

The following table presents details of our repurchases during the three months ended March 31, 2008:

<u>Period</u>	<u>Total Number of Shares Purchased</u> (In thousands)	<u>Average Price per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan</u> (In thousands)	<u>Approximate Dollar Value of Shares That May yet be Purchased under the Plan</u> (In thousands)
January 2008	3,932	\$ 23.83	3,932	
February 2008	7,181	20.30	7,181	
March 2008	8,908	18.15	8,908	
Total	<u>20,021</u>	20.04	<u>20,021</u>	<u>\$ 442,505</u>

From commencement of the current program through March 31, 2008, we repurchased a total of 25.7 million shares of Class A common stock at a weighted average price of \$21.66 per share.

**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**

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

<u>Exhibit Number</u>	<u>Description</u>
31	Certifications of the Chief Executive Officer and Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications of the Chief Executive Officer and Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and furnished herewith pursuant to SEC Release No. 33-8238

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BROADCOM CORPORATION,  
a California corporation  
(Registrant)

/s/ ERIC K. BRANDT

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

/s/ BRET W. JOHNSEN

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Bret W. Johnsen  
*Vice President and  
Corporate Controller*  
(Principal Accounting Officer)

April 23, 2008

**EXHIBIT INDEX**

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

I, Scott A. McGregor, President and Chief Executive Officer, certify that:

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

/s/ SCOTT A. MCGREGOR

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

Date: April 23, 2008

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

I, Eric K. Brandt, Senior Vice President and Chief Financial Officer, certify that:

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

/s/ ERIC K. BRANDT

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

Date: April 23, 2008



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

**Certification of Chief Executive Officer**

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

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2008 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SCOTT A. MCGREGOR

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Scott A. McGregor  
*Chief Executive Officer*

Date: April 23, 2008

**Certification of Chief Financial Officer**

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

- (i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2008 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ERIC K. BRANDT

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Eric K. Brandt  
*Chief Financial Officer*

Date: April 23, 2008