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

# Form 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended June 30, 2006**

**or**

o **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** | **33-0480482** |
|---|---|
| *(State or Other Jurisdiction of Incorporation or Organization)* | *(I.R.S. Employer Identification No.)* |

**16215 Alton Parkway
Irvine, California 92618-3616**
*(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 o No ☑

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

☑ Large accelerated filer o Accelerated filer o Non-accelerated filer

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

As of December 31, 2006 the registrant had 473.5 million shares of Class A common stock, $0.0001 par value, and 74.8 million shares of Class B common stock, $0.0001 par value, outstanding.

**BROADCOM CORPORATION**

**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006**

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## CAUTIONARY STATEMENT

*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 and new accounting rules related to the expensing of stock options on our reported results; 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 our 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 "Risk Factors" contained in Part II, Item 1A of this Report. These forward-looking statements speak only as of the date of this Report. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.*

*Forward-looking statements are not the only statements you should regard with caution. The preparation of our restated consolidated financial statements for the three months ended March 31, 2006 and prior periods required us to make judgments with respect to the methodologies we selected to calculate the adjustments contained in the restated financial statements as well as estimates and assumptions regarding the application of those methodologies. These judgments, estimates and assumptions, which are based on factors that we believe to be reasonable under the circumstances, affected the amounts of additional deferred compensation and additional stock-based compensation expense that we recorded in 2005 and the six months ended June 30, 2006. The application of alternative methodologies, estimates and assumptions could have resulted in materially different amounts.*

## EXPLANATORY NOTE

We recently completed a voluntary review of our equity award practices. The voluntary review, which commenced in May 2006 and covered all grants of options to purchase shares of our Class A or Class B common stock, referred to in this Quarterly Report on Form 10-Q, or this Report, as stock options or options, and other equity awards made since our initial public offering in April 1998, was directed by the Audit Committee of our Board of Directors. The voluntary review consisted of two components: (1) an equity award review, so-referenced in this Report, to determine whether we used appropriate measurement dates for option grants and other equity awards made under our extensive employee equity award programs, which was conducted with the assistance of outside legal counsel Irell & Manella LLP and forensic accountants FTI Consulting Inc., and (2) an investigation of the conduct and performance of Broadcom's officers, employees and directors who were involved in the stock option granting process, referred to in this Report as the conduct review, which was conducted with the assistance of independent legal counsel Kaye Scholer LLP and forensic accountants LECG, LLC.

Based on the results of the equity award review, the Audit Committee concluded that, pursuant to Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25, and related interpretations, the accounting measurement dates for most of the stock options granted between June 1998 and May 2003, covering options to purchase 232.9 million shares of our Class A or Class B common stock, differed from the measurement dates previously used for such awards. As a result, revised measurement dates were applied to the affected option grants and Broadcom recorded a total of $2.259 billion in additional stock-based compensation

expense for the years 1998 through 2005. After related tax adjustments of $38.7 million, the restatement resulted in total net adjustments of $2.220 billion for the years 1998 through 2005. This amount is net of forfeitures related to employee terminations. The additional stock-based compensation expense is being amortized over the service period relating to each option, typically four years, with approximately 95% of the expense being recorded in years prior to 2004.

As a consequence of these adjustments, our audited consolidated financial statements and related disclosures for the three years ended December 31, 2005 and our consolidated statements of operations and consolidated balance sheet data for the five years ended December 31, 2005 have been restated. In addition, the unaudited quarterly unaudited financial information and financial statements for interim periods of 2005 and 2004 and unaudited condensed consolidated financial statements for the three months ended March 31, 2006 have been restated. We have also restated the stock-based compensation expense footnote information calculated under Statement of Financial Accounting Standards, or SFAS, No. 123, *Accounting for Stock-Based Compensation*, or SFAS 123, and SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure,* or SFAS 148, under the disclosure-only alternatives of those pronouncements for the years 2003 through 2005 and for interim periods of 2005 and 2004. This restated financial and footnote information is included in our amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006 filed with the Securities and Exchange Commission, or SEC, today.

The adjustments did not affect Broadcom's previously-reported revenue, cash, cash equivalents or marketable securities balances in any of the restated periods.

The amounts of the adjustments we recorded for the years 1998 through 2005 were calculated pursuant to APB 25. Effective January 1, 2006 we adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their respective grant date fair values. As a result, the $14.3 million of additional stock-based compensation expense that we recorded in connection with our equity award review in the three months ended March 31, 2006 is calculated pursuant to SFAS 123R.

The follow table summarizes additional stock-based compensation expense and related tax adjustments resulting from the review of our equity award practices on a quarterly basis for 2005 and the three months ended March 31, 2006:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2005 | June 30, 2005 | September 30, 2005 | December 31, 2005 | March 31, 2006(1) |
| | | | (In thousands) | | |
| Additional stock-based compensation expense | $ 12,845 | $ 11,599 | $ 10,362 | $ 7,205 | $ 14,295 |
| Other tax adjustments | 223 | 441 | 1,084 | 881 | 2,893 |
| Additional operating expenses | 13,068 | 12,040 | 11,446 | 8,086 | 17,188 |
| Income tax expense (benefit) | (8,255) | 8,255 | — | — | — |
| Net adjustments | $ 4,813 | $ 20,295 | $ 11,446 | $ 8,086 | $ 17,188 |

(1) These amounts are not included in the total additional stock-based compensation expense and related tax adjustments recorded for the years 1998 through 2005 discussed above because they are calculated in accordance with SFAS 123R, which we adopted effective January 1, 2006.

The following table summarizes the impact of the additional stock-based compensation expense and related income tax adjustments (but not "other tax adjustments") resulting from the review of our equity award practices

on previously-reported stock-based compensation expense on a quarterly basis for 2005 and the three months ended March 31, 2006:

| | Stock-Based Compensation Expense | | |
|---|---|---|---|
| | As Reported | Adjustments | As Restated |
| | | (In thousands) | |
| Three Months Ended March 31, 2005 | $ 11,294 | $ 4,590 | $ 15,884 |
| Three Months Ended June 30, 2005 | 14,548 | 19,854 | 34,402 |
| Three Months Ended September 30, 2005 | 16,584 | 10,362 | 26,946 |
| Three Months Ended December 31, 2005 | 17,578 | 7,205 | 24,783 |
| Year Ended December 31, 2005 | $ 60,004 | $ 42,011 | $ 102,015 |
| Three Months Ended March 31, 2006 | $ 93,691 | $ 14,295 | $ 107,986 |

This Quarterly Report on Form 10-Q should be read in conjunction with our amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006 filed with the SEC today. Information regarding the effect of the restatement on our financial position and results of operations is provided in Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Report and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 2 of this Report.

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, and all earnings press releases and similar communications issued by us, for all periods ended on or before March 31, 2006 should not be relied upon and are superseded in their entirety by the information in the amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and the amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006 filed with the SEC today.

Share and per share information presented in this Report has been adjusted to reflect all splits and dividends of our common stock subsequent to April 16, 1998, including the three-for-two stock split effected February 21, 2006 through the payment of a stock dividend.

## PART I. FINANCIAL INFORMATION

**Item 1.** ***Financial Statements***

## BROADCOM CORPORATION

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2006 | December 31, 2005 (Restated) |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,838,372 | $ 1,437,276 |
| Short-term marketable securities | 366,894 | 295,402 |
| Accounts receivable, net | 408,301 | 307,356 |
| Inventory | 278,036 | 194,571 |
| Prepaid expenses and other current assets | 90,242 | 101,271 |
| Total current assets | 2,981,845 | 2,335,876 |
| Property and equipment, net | 110,691 | 96,438 |
| Long-term marketable securities | 171,961 | 142,843 |
| Goodwill | 1,186,286 | 1,149,602 |
| Purchased intangible assets, net | 34,019 | 7,332 |
| Other assets | 15,916 | 20,108 |
| Total assets | $ 4,500,718 | $ 3,752,199 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 321,011 | $ 289,069 |
| Wages and related benefits | 73,852 | 74,709 |
| Deferred revenue | 1,520 | 2,053 |
| Accrued liabilities | 257,628 | 233,663 |
| Total current liabilities | 654,011 | 599,494 |
| Commitments and contingencies | | |
| Long-term liabilities | 7,952 | 12,138 |
| Shareholders' equity: | | |
| Common stock | 55 | 52 |
| Additional paid-in capital | 11,752,767 | 11,474,724 |
| Notes receivable from employees | (2,317) | (4,743) |
| Deferred compensation | — | (194,331) |
| Accumulated deficit | (7,912,459) | (8,136,243) |
| Accumulated other comprehensive income | 709 | 1,108 |
| Total shareholders' equity | 3,838,755 | 3,140,567 |
| Total liabilities and shareholders' equity | $ 4,500,718 | $ 3,752,199 |

See accompanying notes.

**BROADCOM CORPORATION**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 (Restated) | 2006 | 2005 (Restated) |
| | (In thousands, except per share data) | | | |
| Net revenue | $ 941,131 | $ 604,861 | $ 1,841,778 | $ 1,155,206 |
| Cost of revenue | 457,374 | 284,092 | 891,583 | 550,911 |
| Gross profit | 483,757 | 320,769 | 950,195 | 604,295 |
| Operating expense: | | | | |
| Research and development | 280,024 | 161,991 | 531,718 | 316,575 |
| Selling, general and administrative | 121,982 | 64,899 | 234,881 | 126,947 |
| Amortization of purchased intangible assets | 605 | 1,040 | 1,688 | 1,952 |
| In-process research and development | — | — | 5,200 | 6,652 |
| Settlement costs | — | 110,000 | — | 110,000 |
| Income (loss) from operations | 81,146 | (17,161) | 176,708 | 42,169 |
| Interest income, net | 28,194 | 10,678 | 51,932 | 18,636 |
| Other income, net | 1,448 | 679 | 3,219 | 777 |
| Income (loss) before income taxes | 110,788 | (5,804) | 231,859 | 61,582 |
| Provision (benefit) for income taxes | 4,702 | (570) | 8,075 | 2,447 |
| Net income (loss) | $ 106,086 | $ (5,234) | $ 223,784 | $ 59,135 |
| Net income (loss) per share (basic) | $ .19 | $ (.01) | $ .41 | $ .12 |
| Net income(loss) per share (diluted) | $ .18 | $ (.01) | $ .37 | $ .11 |
| Weighted average shares (basic) | 547,790 | 502,353 | 543,379 | 499,779 |
| Weighted average shares (diluted) | 594,546 | 502,353 | 597,875 | 536,858 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006(1) | 2005 (Restated) | 2006(1) | 2005 (Restated) |
| | (In thousands) | | | |
| Cost of revenue | $ 7,105 | $ 1,007 | $ 13,391 | $ 2,066 |
| Research and development | 86,420 | 17,872 | 156,425 | 33,409 |
| Selling, general and administrative | 38,940 | 7,268 | 70,635 | 14,811 |
| | $ 132,465 | $ 26,147 | $ 240,451 | $ 50,286 |

The amounts included in the three and six months ended June 30, 2006 reflect the adoption of Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), *Share-Based Payment* (“SFAS 123R”), effective January 1, 2006. Had Broadcom applied the provisions of SFAS 123R in prior periods, it would have reported a net loss of $128.8 million or a $0.26 net loss per share (basic and diluted) in the three months ended June 30, 2005 and a net loss of $214.4 million or a $0.43 net loss per share (basic and diluted) in the six months ended June 30, 2005. See Notes 1 and 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

All historical share information has been adjusted to reflect the three-for-two stock split effected February 21, 2006 through the payment of a stock dividend of one additional share of Class A or Class B common stock, as applicable, for every two shares of such class held on the record date of February 6, 2006.

See accompanying notes.

**BROADCOM CORPORATION**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 (Restated) |
| | (In thousands) | |
| **Operating activities** | | |
| Net income | $ 223,784 | $ 59,135 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 23,325 | 27,778 |
| Stock-based compensation expense: | | |
| Stock options and other awards | 181,248 | 36,727 |
| Restricted stock units issued by the Company | 59,203 | 13,559 |
| Acquisition-related items: | | |
| Amortization of purchased intangible assets | 7,413 | 7,486 |
| In-process research and development | 5,200 | 6,652 |
| Gain on strategic investments | (700) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (100,901) | (37,848) |
| Inventory | (82,840) | (4,728) |
| Prepaid expenses and other assets | 17,747 | (10,622) |
| Accounts payable | 27,715 | 40,119 |
| Accrued settlement liabilities | (2,000) | 99,852 |
| Other accrued liabilities | 17,798 | (7,919) |
| Net cash provided by operating activities | 376,992 | 230,191 |
| **Investing activities** | | |
| Net purchases of property and equipment | (37,229) | (13,430) |
| Net cash paid for acquisitions | (67,921) | (24,028) |
| Net proceeds from sales (purchases) of strategic investments | 137 | (105) |
| Purchases of marketable securities | (372,033) | (334,880) |
| Proceeds from maturities of marketable securities | 271,423 | 218,404 |
| Net cash used in investing activities | (205,623) | (154,039) |
| **Financing activities** | | |
| Net proceeds from issuance of common stock | 477,690 | 99,422 |
| Repurchases of Class A common stock | (246,102) | (18,240) |
| Repayment of notes receivable by employees | 2,426 | 124 |
| Excess tax benefits from stock-based compensation | 338 | — |
| Payments on assumed debt and other obligations | (4,625) | (2,482) |
| Net cash provided by financing activities | 229,727 | 78,824 |
| Increase in cash and cash equivalents | 401,096 | 154,976 |
| Cash and cash equivalents at beginning of period | 1,437,276 | 858,592 |
| Cash and cash equivalents at end of period | $ 1,838,372 | $ 1,013,568 |

See accompanying notes.

**BROADCOM CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
June 30, 2006

**1. Summary of Significant Accounting Policies**

***The Company***

Broadcom Corporation is a global leader in semiconductors for wired and wireless communications. The Company's products enable the delivery of voice, video, data and multimedia to and throughout the home, the office and the mobile environment. The Company 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. Its 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; System I/O™ server solutions; broadband network and security processors; wireless and personal area networking; cellular communications; 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 ("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 the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2005, included in the Company's amended Annual Report on Form 10-K/A filed January 23, 2007 with the SEC.

The 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 the Company's consolidated financial position at June 30, 2006 and December 31, 2005, and the consolidated results of its operations for the three and six months ended June 30, 2006 and 2005, and the consolidated cash flows for the six months ended June 30, 2006 and 2005. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for future quarters or the full year.

***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 date of the financial statements and the reported amounts of net revenue and expenses in the reporting period. The Company regularly evaluates estimates and assumptions related to 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, tax contingencies, restructuring costs, litigation and other loss contingencies. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected. The preparation of the Company's restated consolidated financial statements required management to make judgments with respect to the methodologies it selected to calculate the adjustments to the Company's unaudited condensed consolidated financial statements and estimates and assumptions regarding the application of those methodologies. These judgments, estimates and assumptions affected the amounts of additional

deferred compensation (recorded prior to 2006) and additional stock-based compensation expense that the Company recorded in 2005 and the six months ended June 30, 2006, and the application of alternative methodologies, estimates and assumptions could have resulted in materially different amounts.

***Revenue Recognition***

The Company's net revenue is generated principally by sales of its semiconductor products. The Company derives the remaining balance of its net revenue predominantly from software licenses, development agreements, support and maintenance agreements and cancellation fees. In addition, the majority of the Company's sales occur through the efforts of its direct sales force. The remaining balance of its sales occurs through distributors.

The following table presents details of the Company's revenue:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Sales of semiconductor products | 98.5% | 98.5% | 99.0% | 98.5% |
| Other | 1.5 | 1.5 | 1.0 | 1.5 |
| | 100.0% | 100.0% | 100.0% | 100.0% |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Sales made through direct sales force | 83.0% | 84.8% | 82.6% | 85.3% |
| Sales made through distributors | 17.0 | 15.2 | 17.4 | 14.7 |
| | 100.0% | 100.0% | 100.0% | 100.0% |

In accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements* ("SAB 101") and SAB No. 104, *Revenue Recognition* ("SAB 104"), the Company recognizes product revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment. However, the Company does not recognize revenue until all customer acceptance requirements have been met, when applicable. A portion of the Company's 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, at which time the terms of the sale become fixed and determinable. The Company records 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.

In arrangements that include a combination of hardware and software products that are also sold separately, where software is more than incidental and essential to the functionality of the product being sold, the Company follows the guidance in Emerging Issues Task Force ("EITF") Issue No. 03-05, *Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software*, accounts for the entire arrangement as a sale of software and software-related items, and follows the revenue recognition criteria in Statement of Position ("SOP") 97-2, *Software Revenue Recognition* ("SOP 97-2"), and related interpretations.

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 the American Institute of Certified Public Accountants Statement of Position ("SOP") 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* Revenue from software licenses and maintenance agreements is recognized in accordance with the provisions of SOP 97-2 as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions.* Revenue from cancellation fees is recognized when cash is received from the customer.

***Inventory***

Inventory consists of work in process and finished goods and is stated at the lower of cost (first-in, first-out) or market. The Company establishes inventory reserves for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated 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 consolidated statements of operations.

***Rebates***

The Company accounts for rebates in accordance with Financial Accounting Standards Board ("FASB") 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, records reductions to revenue for rebates in the same period that the related revenue is recorded. The amount of these reductions is based upon the terms included in the Company's various rebate agreements.

***Warranty***

The Company's products typically carry a one to three year warranty. The Company establishes reserves for estimated product warranty costs at the time revenue is recognized based upon its historical warranty experience, and additionally for any known product warranty issues.

***Stock-Based Compensation***

The Company 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. The Company also has an employee stock purchase plan for all eligible employees. Effective January 1, 2006 the Company adopted SFAS 123R, which requires 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 on their respective grant date fair values and does not allow the previously permitted pro forma disclosure-only method as an alternative to financial statement recognition. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations and amends SFAS No. 95, *Statement of Cash Flows.* SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under previous literature. This requirement may reduce future net operating cash flows and increase net financing cash flows. In March 2005 the SEC issued SAB No. 107, *Share-Based Payment* ("SAB 107"), which provides guidance regarding the interaction of SFAS 123R and certain SEC rules and regulations. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company adopted SFAS 123R using the modified-prospective method of recognition of compensation expense related to share-based payments. The Company's unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2006 reflect the impact of adopting SFAS 123R. In accordance with the modified prospective transition method, the Company's unaudited condensed consolidated statements of operations for prior periods have *not* been restated to reflect, and do not include, the impact of SFAS 123R.

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 periods. The Company has estimated the fair value of each award 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 the Company's stock price. Although the Black-Scholes model meets the requirements of SFAS 123R and SAB 107, the fair values generated by the model may not be indicative of the actual fair values of the Company's awards, as it does not consider other factors important to those share-based payment awards, such as continued employment, periodic vesting requirements, and limited transferability.

On November 10, 2005 the FASB issued Staff Position No. SFAS 123R-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards* ("SFAS 123R-3"). The Company has elected to adopt the alternative transition method provided in SFAS 123R-3 for calculating the tax effects of stock-based compensation pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC Pool") related to the tax effects of employee stock-based compensation expense, and to determine the subsequent impact on the APIC Pool and unaudited condensed consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that were outstanding at the Company's adoption of SFAS 123R. In addition, in accordance with SFAS 123R, SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"), and EITF Topic D-32, *Intraperiod Tax Allocation of the Tax Effect of Pretax Income from Continuing Operations*, the Company has elected to recognize excess income tax benefits from stock option exercises in additional paid-in capital only if an incremental income tax benefit would be realized after considering all other tax attributes presently available to the Company.

Prior to the adoption of SFAS 123R, the Company accounted for share-based payment awards to employees in accordance with APB 25 and related interpretations, and had adopted the disclosure-only alternative of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), and SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure.* In accordance with APB 25, stock-based compensation expense was not recorded in connection with share-based payment awards granted with exercise prices equal to or greater than the fair market value of the Company's Class A common stock on the date of grant, unless certain modifications were subsequently made. The Company recorded deferred compensation in connection with stock options granted, as well as stock options assumed in acquisitions, with exercise prices less than the fair market value of the Class A common stock on the date of grant or assumption in the case of acquisitions. The amount of such deferred compensation per share was equal to the excess of the fair market value over the exercise price on such date. The Company recorded deferred compensation in connection with restricted stock units equal to the fair market value of the Class A common stock on the date of grant. Recorded deferred compensation was recognized as stock-based compensation expense ratably over the applicable vesting periods, which are generally deemed to be the applicable service periods. In accordance with the provisions of SFAS 123R, as of January 1, 2006, all deferred compensation previously recorded has been eliminated with a corresponding reduction in additional paid-in capital.

***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 period. 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 the Company's 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***

The Company operates in one reportable operating segment, wired and wireless broadband communications. SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("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 the Company had four operating segments at June 30, 2006, under the aggregation criteria set forth in SFAS 131 the Company operates 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.

The Company meets each of the aggregation criteria for the following reasons:

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

All of the Company's operating segments share similar economic characteristics as they have a similar long term business model, operate at similar gross margins, and have similar research and development expenses and similar selling, general and administrative expenses. The causes for variation among each of the 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 the Company periodically reorganizes its 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 the Company meets each of the criteria set forth in SFAS 131 and its four operating segments as of June 30, 2006 share similar economic characteristics, the Company aggregates its results of operations into one reportable operating segment.

***Reclassifications***

Certain amounts in the 2005 unaudited condensed consolidated financial statements have been reclassified to conform with the current period presentation.

**2. Restatement of Unaudited Condensed Consolidated Financial Statements**

Broadcom Corporation recently completed a voluntary review of the Company's equity award practices. The voluntary review, which commenced in May 2006 and covered all grants of options to purchase shares of the Company's Class A or Class B common stock ("stock options" or "options") and other equity awards made since the Company's initial public offering in April 1998, was directed by the Audit Committee of the Board of Directors. The voluntary review consisted of two components: (1) an equity award review to determine whether the Company used appropriate measurement dates for option grants and other equity awards made under its extensive employee equity award programs, which was conducted with the assistance of outside legal counsel Irell & Manella LLP and forensic accountants FTI Consulting Inc., and (2) an investigation of the conduct and performance of Broadcom's officers, employees and directors who were involved in the stock option granting process, which was conducted with the assistance of independent legal counsel Kaye Scholer LLP and forensic accountants LECG, LLC.

Based on the results of the equity award review, the Audit Committee concluded that, pursuant to APB 25 and related interpretations, the accounting measurement dates for most of the stock options granted between June 1998 and May 2003, covering options to purchase 232.9 million shares of the Company's Class A or Class B common stock, differed from the measurement dates previously used for such awards. As a result, revised measurement dates were applied to the affected option grants and the Company recorded a total of $2.259 billion in additional stock-based compensation expense for the years 1998 through 2005. After related tax adjustments of $38.7 million, the restatement resulted in total net adjustments of $2.220 billion for the years 1998 through 2005. This amount is net of forfeitures related to employee terminations. The additional stock-based compensation expense is being recorded over the service period relating to each option, typically four years, with approximately 95% of the expense being recorded in years prior to 2004.

As a consequence of these adjustments, the Company's audited consolidated financial statements and related disclosures for the three years ended December 31, 2005, the unaudited quarterly financial information for interim periods of 2005 and 2004, and unaudited condensed consolidated financial statements for the three months ended March 31, 2006 have been restated. The Company has also restated the stock-based compensation expense footnote information calculated under SFAS 123 and SFAS 148 under the disclosure-only alternatives of those pronouncements for the years 2003 through 2005 and for the quarterly periods of 2005 and 2004. This restated financial and footnote information is included in the Company's amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006 filed with the SEC today. The adjustments did not affect the Company's previously-reported cash, cash equivalents or marketable securities balances in any of the restated periods.

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 the Company's independent registered public accounting firm, and all earnings press releases and similar communications issued by Broadcom, for all periods ended on or before March 31, 2006 should not be relied upon and are superseded in their entirety by the information in the amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and the amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006 filed with the SEC today.

The amounts of the adjustments the Company recorded for the years 1998 through 2005 were calculated pursuant to APB 25. The Company adopted SFAS 123R effective January 1, 2006, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their respective grant date fair values. As a result, the $14.3 million of additional stock-based compensation expense that the Company's recorded in connection with its equity award review in the three months ended March 31, 2006 is calculated pursuant to SFAS 123R.

**BROADCOM CORPORATION**

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

The following table summarizes additional stock-based compensation expense and related tax adjustments resulting from the review of the Company's equity award practices on a quarterly basis for 2005 and the three months ended March 31, 2006:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2005 | June 30, 2005 | September 30, 2005 | December 31, 2005 | March 31, 2006(1) |
| | (In thousands) | | | | |
| Additional stock-based compensation expense | $ 12,845 | $ 11,599 | $ 10,362 | $ 7,205 | $ 14,295 |
| Other tax adjustments | 223 | 441 | 1,084 | 881 | 2,893 |
| Additional operating expenses | 13,068 | 12,040 | 11,446 | 8,086 | 17,188 |
| Income tax expense (benefit) | (8,255) | 8,255 | — | — | — |
| Net adjustments | $ 4,813 | $ 20,295 | $ 11,446 | $ 8,086 | $ 17,188 |

(1) These amounts are not included in the total additional stock-based compensation expense and related tax adjustments recorded for the years 1998 through 2005 discussed above because they are calculated in accordance with SFAS 123R, which the Company adopted effective January 1, 2006.

The following table summarizes the impact of the additional stock-based compensation expense and related income tax adjustments (but not "other tax adjustments") resulting from the review of the Company's equity award practices on previously reported stock-based compensation expense on a quarterly basis for 2005 and the three months ended March 31, 2006:

| | Stock-Based Compensation Expense | | |
|---|---|---|---|
| | As Reported | Adjustments | As Restated |
| | (In thousands) | | |
| Three months ended March 31, 2005 | $ 11,294 | $ 4,590 | $ 15,884 |
| Three months ended June 30, 2005 | 14,548 | 19,854 | 34,402 |
| Three months ended September 30, 2005 | 16,584 | 10,362 | 26,946 |
| Three months ended December 31, 2005 | 17,578 | 7,205 | 24,783 |
| Year ended December 31, 2005 | $ 60,004 | $ 42,011 | $ 102,015 |
| Three months ended March 31, 2006 | $ 93,691 | $ 14,295 | $ 107,986 |

**Impact of the Additional Stock-Based Compensation Expense-Related Adjustments on the Unaudited Condensed Consolidated Financial Statements**

***Unaudited Condensed Consolidated Statements of Operations***

The following tables present the impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2005:

| | Three Months Ended June 30, 2005 | | | Six Months Ended June 30, 2005 | | |
|---|---|---|---|---|---|---|
| | As Reported | Adjustments | As Restated | As Reported | Adjustments | As Restated |
| | (In thousands, except per share data) | | | | | |
| Net revenue | $ 604,861 | $ — | $ 604,861 | $ 1,155,206 | $ — | $ 1,155,206 |
| Cost of revenue | 283,455 | 637 | 284,092 | 549,571 | 1,340 | 550,911 |
| Gross profit | 321,406 | (637) | 320,769 | 605,635 | (1,340) | 604,295 |
| Operating expense: | | | | | | |
| Research and development | 153,634 | 8,357 | 161,991 | 299,504 | 17,071 | 316,575 |
| Selling, general and administrative | 61,853 | 3,046 | 64,899 | 120,250 | 6,697 | 126,947 |
| Amortization of purchased intangible assets | 1,040 | — | 1,040 | 1,952 | — | 1,952 |
| Settlement costs | 110,000 | — | 110,000 | 110,000 | — | 110,000 |
| In-process research and development | — | — | — | 6,652 | — | 6,652 |
| Income (loss) from operations | (5,121) | (12,040) | (17,161) | 67,277 | (25,108) | 42,169 |
| Interest income, net | 10,678 | — | 10,678 | 18,636 | — | 18,636 |
| Other income, net | 679 | — | 679 | 777 | — | 777 |
| Income (loss) before income taxes | 6,236 | (12,040) | (5,804) | 86,690 | (25,108) | 61,582 |
| Provision (benefit) for income taxes | (8,825) | 8,255 | (570) | 2,447 | — | 2,447 |
| Net income (loss) | $ 15,061 | $ (20,295) | $ (5,234) | $ 84,243 | $ (25,108) | $ 59,135 |
| Net income (loss) per share (basic) | $ 0.03 | $ (0.04) | $ (0.01) | $ 0.17 | $ (0.05) | $ 0.12 |
| Net income (loss) per share (diluted) | $ 0.03 | $ (0.04) | $ (0.01) | $ 0.16 | $ (0.05) | $ 0.11 |
| Weighted average shares (basic) | 502,353 | — | 502,353 | 499,779 | — | 499,779 |
| Weighted average shares (diluted) | 544,796 | (42,443) | 502,353 | 540,967 | (4,109) | 536,858 |

BROADCOM CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

| | Three Months Ended June 30, 2005 | | | Six Months Ended June 30, 2005 | | |
|---|---|---|---|---|---|---|
| | As Reported | Adjustments | As Restated | As Reported | Adjustments | As Restated |
| | (In thousands) | | | | | |
| Cost of revenue | $ 394 | $ 613 | $ 1,007 | $ 762 | $ 1,304 | $ 2,066 |
| Research and development | 9,915 | 7,957 | 17,872 | 16,940 | 16,469 | 33,409 |
| Selling, general and administrative | 4,239 | 3,029 | 7,268 | 8,140 | 6,671 | 14,811 |
| | $ 14,548 | $ 11,599 | $ 26,147 | $ 25,842 | $ 24,444 | $ 50,286 |

***Consolidated Balance Sheet***

The net impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported consolidated balance sheet as of December 31, 2005 was an increase in wages and related benefits and a decrease in total shareholders' equity for related tax adjustments of $4.9 million as of December 31, 2005.

***Stock-Based Compensation in Accordance with SFAS 123***

In accordance with the requirements of the disclosure-only alternative of SFAS 123, set forth below is a pro forma illustration of the effect on net income (loss) and net income (loss) per share information for the three and six months ended June 30, 2005, computed as if the Company had valued stock-based awards to employees using the Black-Scholes option pricing model instead of applying the guidelines provided by APB 25. In addition, the table below presents the impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported pro forma illustrations for the stated periods:

| | Three Months Ended June 30, 2005 | | | Six Months Ended June 30, 2005 | | |
|---|---|---|---|---|---|---|
| | As Reported | Adjustments | As Restated | As Reported | Adjustments | As Restated |
| | (In thousands, except per share data) | | | | | |
| Net income (loss) | $ 15,061 | $ (20,295) | $ (5,234) | $ 84,243 | $ (25,108) | $ 59,135 |
| Add: Stock-based compensation expense included in net income (loss) | 14,548 | 19,854 | 34,402 | 25,842 | 24,444 | 50,286 |
| Deduct: Stock-based compensation expense determined under the fair value method | (108,565) | (49,368) | (157,933) | (250,569) | (73,287) | (323,856) |
| Net loss — pro forma | $ (78,956) | $ (49,809) | $ (128,765) | $ (140,484) | $ (73,951) | $ (214,435) |
| Net income (loss) per share (basic) | $ 0.03 | $ (0.04) | $ (0.01) | $ 0.17 | $ (0.05) | $ 0.12 |
| Net income (loss) per share (diluted) | $ 0.03 | $ (0.04) | $ (0.01) | $ 0.16 | $ (0.05) | $ 0.11 |
| Net loss per share (basic and diluted) — pro forma | $ (0.16) | $ (0.10) | $ (0.26) | $ (0.28) | $ (0.15) | $ (0.43) |

BROADCOM CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 3. Supplemental Financial Information

***Inventory***

The following table presents details of the Company's inventory:

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| | (In thousands) | |
| Work in process | $ 121,259 | $ 86,445 |
| Finished goods | 156,777 | 108,126 |
| | $ 278,036 | $ 194,571 |

***Purchased Intangible Assets***

The following table presents details of the Company's purchased intangible assets:

| | June 30, 2006 | | | December 31, 2005 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| | (In thousands) | | | | | |
| Completed technology | $ 186,799 | $ (156,400) | $ 30,399 | $ 156,099 | $ (150,676) | $ 5,423 |
| Customer relationships | 49,266 | (46,466) | 2,800 | 46,266 | (45,228) | 1,038 |
| Customer backlog | 3,316 | (3,316) | — | 3,316 | (3,316) | — |
| Other | 7,614 | (6,794) | 820 | 7,214 | (6,343) | 871 |
| | $ 246,995 | $ (212,976) | $ 34,019 | $ 212,895 | $ (205,563) | $ 7,332 |

At June 30, 2006 the unamortized balance of purchased intangible assets that will be amortized to future cost of revenue and other operating expenses was $30.4 million and $3.6 million, respectively. This expense will be amortized ratably through 2011. If the Company acquires additional purchased intangible assets in the future, its cost of revenue or other operating expenses will be increased by the amortization of those assets.

The following table presents details of the amortization of purchased intangible assets by expense category:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands) | | | |
| Cost of revenue | $ 2,744 | $ 3,244 | $ 5,725 | $ 5,534 |
| Operating expense | 605 | 1,040 | 1,688 | 1,952 |
| | $ 3,349 | $ 4,284 | $ 7,413 | $ 7,486 |

***Accrued Liabilities***

The following table presents details of the Company's accrued liabilities:

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| | (In thousands) | |
| Accrued rebates | $ 110,938 | $ 99,645 |
| Accrued taxes | 70,761 | 68,318 |
| Warranty reserve | 18,272 | 14,131 |
| Restructuring liabilities | 7,335 | 8,083 |
| Accrued settlement liabilities | 2,048 | 2,047 |
| Other | 48,274 | 41,439 |
| | $ 257,628 | $ 233,663 |

***Long-Term Liabilities***

The following table presents details of the Company's long-term liabilities:

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| | (In thousands) | |
| Restructuring liabilities | $ 5,952 | $ 8,138 |
| Accrued settlement liabilities | 2,000 | 4,000 |
| | $ 7,952 | $ 12,138 |

***Accrued Rebate Activity***

The following table summarizes the activity related to accrued rebates during the six months ended June 30, 2006 and 2005:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| | (In thousands) | |
| Beginning balance | $ 99,645 | $ 93,222 |
| Charged as a reduction to revenue | 111,123 | 105,199 |
| Payments | (99,830) | (109,731) |
| Ending balance | $ 110,938 | $ 88,690 |

BROADCOM CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

***Warranty Reserve Activity***

The following table summarizes the activity related to warranty reserves during the six months ended June 30, 2006 and 2005:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| | (In thousands) | |
| Beginning balance | $ 14,131 | $ 19,185 |
| Charged to costs and expenses | 4,592 | — |
| Acquired through acquisition | 878 | 55 |
| Payments | (1,329) | (1,728) |
| Ending balance | $ 18,272 | $ 17,512 |

***Restructuring Activity***

The following table summarizes the activity related to the Company’s current and long-term restructuring liabilities during the six months ended June 30, 2006:

| | Six Months Ended June 30, 2006 |
|---|---|
| | (In thousands) |
| Beginning balance | $ 16,221 |
| Cash payments(1) | (2,934) |
| Ending balance | $ 13,287 |

(1) These cash payments relate to net lease payments on excess facilities 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 (Loss) Per Share***

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 (Restated) | 2006 | 2005 (Restated) |
| | (In thousands, except per share data) | | | |
| Numerator: Net income (loss) | $ 106,086 | $ (5,234) | $ 223,784 | $ 59,135 |
| Denominator: Weighted average shares outstanding | 547,969 | 502,994 | 543,588 | 500,483 |
| Less: Unvested common shares outstanding | (179) | (641) | (209) | (704) |
| Denominator for net income (loss) per share (basic) | 547,790 | 502,353 | 543,379 | 499,779 |
| Effect of dilutive securities: | | | | |
| Unvested common shares outstanding | 73 | — | 154 | 680 |
| Stock options, restricted stock units and certain other equity compensation instruments | 46,683 | — | 54,342 | 36,399 |
| Denominator for net income per share (diluted) | 594,546 | 502,353 | 597,875 | 536,858 |
| Net income (loss) per share (basic) | $ .19 | $ (.01) | $ .41 | $ .12 |
| Net income (loss) per share (diluted) | $ .18 | $ (.01) | $ .37 | $ .11 |

At June 30, 2006 common share equivalents were calculated based on (i) stock options to purchase 129.7 million shares of Class A or Class B common stock outstanding with a weighted average exercise price of $22.17 per share and (ii) 13.5 million restricted stock units that entitle the holder to receive a like number of freely transferable shares of Class A common stock as the awards vest.

**4. Business Combinations**

In March 2006 the Company completed the acquisition of Sandburst Corporation, a fabless semiconductor company specializing in the design and development of packet switching and routing systems-on-a-chip (“SoCs”) that are deployed in enterprise core and metropolitan Ethernet networks. In connection with this acquisition, the Company paid $72.0 million in cash. In addition, the Company assumed unvested stock options to purchase 0.1 million shares that had a fair value of $4.4 million in accordance with SFAS 123R. The Company recorded a one-time charge of $5.2 million for purchased in-process research and development (“IPR&D”) expense. The amount allocated to IPR&D in the three months ended March 31, 2006 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. The Company also assumed $7.6 million in net liabilities and recorded $40.2 million in goodwill, $30.7 million of completed technology and $3.4 million in other purchased intangible assets in connection with this acquisition.

The Company’s primary reasons for the Sandburst acquisition were to enter into the design and development of packet switching and routing SoCs that are deployed in enterprise core and metropolitan Ethernet networks, reduce the time required to develop new technologies and products and bring them to market, incorporate enhanced functionality into and complement the Company’s existing network switch product offerings, augment its engineering workforce, and enhance its technological capabilities. Certain of the cash consideration in the above acquisition is currently held in escrow pursuant to the terms of the acquisition agreement.

The unaudited condensed consolidated financial statements for the six months ended June 30, 2006 include the results of operations of Sandburst 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 the Company's results of operations.

## 5. Income Taxes

The Company recorded tax provisions of $4.7 million and $8.1 million for the three and six months ended June 30, 2006, respectively, and a tax benefit of $0.6 million and a tax provision of $2.4 million for the three and six months ended June 30, 2005, respectively. The effective tax rates for the Company were 4.2% and 3.5% for the three and six months ended June 30, 2006, respectively, and 9.8% and 4.0% for the three and six months ended June 30, 2005, respectively.

The difference between the Company's effective tax rates and the 35% federal statutory rate resulted primarily from domestic losses recorded without income tax benefit, foreign earnings taxed at rates lower than the federal statutory rate and certain foreign tax benefits recorded for the three and six months ended June 30, 2006 and June 30, 2005. During the three months ended June 30, 2005 the Company's Singapore operations were granted certain additional tax incentives, which reduced the Company's tax provision for the three months ended June 30, 2005 by approximately $4.6 million.

The Company utilizes the liability method of accounting for income taxes as set forth in SFAS 109. The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers 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 the Company's recent cumulative losses in the U.S. and certain foreign jurisdictions, and the full utilization of its loss carryback opportunities, the Company has concluded that a full valuation allowance should be recorded in such jurisdictions. In certain other foreign jurisdictions where the Company does not have cumulative losses, the Company recorded net deferred tax assets of $1.3 million and $1.4 million at June 30, 2006 and December 31, 2005, respectively, in accordance with SFAS 109.

## 6. Shareholders' Equity

### *Common Stock*

In June 2006 the Company filed Second Amended and Restated Articles of Incorporation (the "Restated Articles") with the California Secretary of State. The Restated Articles (i) increased the aggregate number of shares of Class A common stock that the Company is authorized to issue from 800,000,000 shares to 2,500,000,000 shares, (ii) clarified that the Company is only authorized to issue 6,432,161 shares of preferred stock and (iii) eliminated all statements referring to the rights, preferences, privileges and restrictions of Series A, Series B, Series C, Series D and Series E preferred stock, all outstanding shares of which automatically converted into shares of Class B common stock upon consummation of its initial public offering.

### *Share Repurchase Program*

In February 2005 the Company's Board of Directors authorized a program to repurchase shares of the Company's Class A common stock. The Board approved the repurchase of shares having an aggregate value of up to $250 million from time to time over a period of one year, depending on market conditions. In January 2006 the Board approved an amendment to the share repurchase program extending the program through January 26, 2007 and authorizing the repurchase of additional shares of the Company's Class A common stock having a total market value of up to $500 million from time to time during the period beginning January 26, 2006 and ending January 26, 2007. From the time the program was first implemented through June 30, 2006, the Company repurchased 11.8 million shares at a weighted average price of $33.94 per share. At June 30, 2006, $256.2 million

remained available to repurchase shares under the authorized program, as amended. On July 24, 2006 the Company's Board of Directors decided to suspend purchasing of shares of Class A common stock under the share repurchase program.

***Stock Split***

The Company effected a three-for-two stock split of its Class A and Class B common stock on February 21, 2006 through the payment of a stock dividend of one additional share of Class A or Class B common stock, as applicable, for every two shares of such class held on the record date of February 6, 2006. All historical share numbers and per share amounts contained in these notes and in the unaudited condensed consolidated financial statements have been retroactively restated to reflect this change in the Company's capital structure.

***Comprehensive Income***

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 (Restated) |
| | (In thousands) | |
| Net income | $ 106,086 | $ 59,135 |
| Other comprehensive income (loss): | | |
| Reclassification adjustment for net realized loss included in net income | — | 1 |
| Translation adjustments | (399) | (34) |
| Total comprehensive income | $ 105,687 | $ 59,102 |

Accumulated other comprehensive income reflected on the unaudited condensed consolidated balance sheets at June 30, 2006 and December 31, 2005 represents accumulated translation adjustments.

## 7. Employee Benefit Plans

***Stock Incentive Plans***

The Company 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. The Company's 1998 Stock Incentive Plan, as amended and restated (the "1998 Plan"), is shareholder approved and permits the grant of stock options and restricted stock units to employees, non-employee members of the Board of Directors and consultants. At June 30, 2006, 56.7 million shares remained available for future grant under the 1998 Plan. Stock option and restricted stock unit awards are designed to reward employees for their long-term contributions to the Company and to provide incentive for them to remain in the Company's employ. The Company believes that such awards better align the interests of its employees with those of its shareholders.

The Board of Directors or the plan administrator determines eligibility, vesting schedules and exercise prices for options granted under the plans. Options granted generally have a term of 10 years, and in the case of newly-hired employees generally vest and become exercisable at the rate of 25% after one year of service and ratably on a monthly basis over a period of 36 months thereafter; subsequent option grants to existing employees generally vest and become exercisable ratably on a monthly basis over a period of 48 months measured from the date of grant. Certain options that have been granted under the Company's 1998 Plan or that were assumed by the Company in connection with certain of its acquisitions provide that the vesting of the options granted thereunder will accelerate in whole or in part upon the occurrence of certain specified events.

In addition, the Company grants restricted stock units as part of its regular annual employee equity compensation review program as well as to new hires and non-employee members of the Board of Directors. Restricted stock units are share awards that entitle the holder to receive freely tradable shares of the Company's Class A common stock upon vesting. Generally, restricted stock units vest ratably on a quarterly basis over 16 quarters from the date of grant.

***Combined Incentive Plan Information***

Option activity under the Company's stock incentive plans in the six months ended June 30, 2006 is set forth below:

| | Options Outstanding | | | |
|---|---|---|---|---|
| | Number of Shares | Price Range per Share | Weighted Average Exercise Price per Share | Weighted Average Fair Value per Share (Restated) |
| | (In thousands) | | | |
| Balance at December 31, 2005 | 142,108 | $ .01 - $81.50 | $ 19.00 | $ 18.57 |
| Options granted under the 1998 Plan | 16,786 | 29.33 - 48.63 | 41.09 | 12.49 |
| Options assumed in acquisition | 107 | 5.26 - 40.49 | 7.66 | 41.31 |
| Options cancelled | (1,717) | .01 - 46.58 | 24.02 | 11.65 |
| Options exercised | (27,539) | .01 - 38.17 | 17.21 | 19.49 |
| Balance at June 30, 2006 | 129,745 | .01 - 81.50 | 22.17 | 17.68 |

At June 30, 2006, outstanding options to purchase 70.3 million shares were exercisable with an average per share exercise price of $18.00. The weighted average remaining contractual life of options outstanding and of options exercisable as of June 30, 2006 were 7.1 years and 6.1 years, respectively.

The total pretax intrinsic value of options exercised during the three and six months ended June 30, 2006 was $112.3 million and $678.5 million, respectively. This intrinsic value represents the difference between the fair market value of the Company's Class A common stock on the date of exercise and the exercise price of each option. Based on the closing price of the Company's Class A common stock of $30.33 on June 30, 2006, the total pretax intrinsic value of all outstanding options was $1.242 billion. The total pretax intrinsic value of exercisable options was $875.1 million.

Restricted stock unit activity under the 1998 Plan in the six months ended June 30, 2006 is set forth below:

| | Restricted Stock Units Outstanding | |
|---|---|---|
| | Number of Shares | Weighted Average Grant-Date Fair Value per Share |
| | (In thousands) | |
| Balance at December 31, 2005 | 7,090 | $ 23.48 |
| Restricted stock units granted under the 1998 Plan | 8,208 | 41.64 |
| Restricted stock units cancelled | (253) | 28.90 |
| Restricted stock units vested | (1,575) | 28.90 |
| Balance at June 30, 2006 | 13,470 | 33.81 |

The total pretax intrinsic value of restricted stock units vested during the three and six months ended June 30, 2006 was $42.8 million and $66.9 million, respectively. Based on the closing price of the Company's Class A

common stock of $30.33 on June 30, 2006, the total pretax intrinsic value of all outstanding restricted stock units was $408.5 million.

***Employee Stock Purchase Plan***

The Company has an employee stock purchase plan for all eligible employees. Under the plan, employees may purchase shares of the Company's Class A common stock at six-month intervals at 85% of fair market value (calculated in the manner provided in the plan). Employees purchase such stock using payroll deductions, which may not exceed 15% of their total cash compensation. The plan imposes certain limitations upon an employee's right to acquire Class A common stock, including the following: (i) no employee may purchase more than 9,000 shares of Class A common stock on any one purchase date and (ii) no employee may be granted rights to purchase more than $25,000 worth of Class A common stock for each calendar year in which such rights are at any time outstanding. The Company issued 1.6 million shares under this plan in the three months ended June 30, 2006. At June 30, 2006, 7.4 million shares were available for future issuance under this plan.

***Stock-Based Compensation Expense***

The following table presents details of total stock-based compensation expense by functional line item:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006(1) | 2005 (Restated) | 2006(1) | 2005 (Restated) |
| | (In thousands) | | | |
| Cost of revenue | $ 7,105 | $ 1,007 | $ 13,391 | $ 2,066 |
| Research and development | 86,420 | 17,872 | 156,425 | 33,409 |
| Selling, general and administrative | 38,940 | 7,268 | 70,635 | 14,811 |
| | $ 132,465 | $ 26,147 | $ 240,451 | $ 50,286 |

(1) The amounts included in the three and six months ended June 30, 2006 reflect the adoption of SFAS 123R. In accordance with the modified prospective transition method, the Company's unaudited condensed consolidated statements of operations for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R.

The weighted average fair values per share of stock options granted in connection with the Company's stock incentive plans have been estimated utilizing the following assumptions:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Expected life (in years) | 3.20 | 3.06 | 3.17 | 3.23 |
| Volatility | 0.35 | 0.39 | 0.35 | 0.41 |
| Risk-free interest rate | 4.99% | 4.01% | 4.93% | 3.96% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |

The weighted average fair values per share of the restricted stock units awarded in the six months ended June 30, 2006 and 2005 were $41.64 and $21.37, respectively, calculated based on the fair market value of the Company's Class A common stock on the respective grant dates.

The adoption of SFAS 123R will continue to have a significant adverse impact on the Company's reported results of operations, although it should not have a material impact on its overall financial position. The amount of unearned stock-based compensation currently estimated to be expensed in the period 2006 through 2011 related to unvested share-based payment awards at June 30, 2006 is $1.054 billion. Of this amount, $218.1 million, $390.7 million, $257.8 million, $159.3 million and $27.9 million are currently estimated to be recorded in the

remainder of 2006, in 2007, 2008, 2009 and thereafter, respectively. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately 1.6 years. Approximately 97% of the total unearned stock-based compensation at June 30, 2006 will be expensed by the end of 2009. If there are any modifications or cancellations of the underlying unvested securities, the Company 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 the Company grants additional equity awards to employees or assumes unvested equity awards in connection with acquisitions.

The Company granted employee stock options to purchase 12.4 million shares of its common stock and 6.2 million restricted stock units in the second quarter of 2006 as part of the Company's regular annual equity compensation review program. The Company will recognize up to $415.4 million of stock-based compensation expense, net of forfeitures, related to those awards. This unearned stock-based compensation is being amortized ratably over the service periods of the underlying stock options and restricted stock units, generally 48 months and 16 quarters, respectively.

In accordance with the requirements of the disclosure-only alternative of SFAS 123, set forth below is a pro forma illustration of the effect on net income (loss) and net income (loss) per share computed as if the Company had valued stock-based awards to employees using the Black-Scholes option pricing model instead of applying the guidelines provided by APB 25 in the three and six months ended June 30, 2005:

| | Three Months Ended June 30, 2005 (Restated) | Six Months Ended June 30, 2005 (Restated) |
|---|---|---|
| | (In thousands, except per share data) | |
| Net income (loss) — as reported | $ (5,234) | $ 59,135 |
| Add: Stock-based compensation expense included in net income (loss) — as reported | 34,402 | 50,286 |
| Deduct: Stock-based compensation expense determined under the fair value method | (157,933) | (323,856) |
| Net loss — pro forma | $ (128,765) | $ (214,435) |
| Net income (loss) per share (basic) — as reported | $ (0.01) | $ 0.12 |
| Net income (loss) per share (diluted) — as reported | $ (0.01) | $ 0.11 |
| Net loss per share (basic and diluted) — pro forma | $ (0.26) | $ (0.43) |

**8. Litigation**

The following describes the material legal proceedings, examinations and other matters in which the Company and its subsidiaries are involved that: (1) were pending as of December 31, 2005; (2) were terminated during the period from December 31, 2005 through January 19, 2007; or (3) are pending as of January 19, 2007. Thus, the description of a matter may include developments that occurred since December 31, 2005, as well as those that occurred during 2005. The matters include legal proceedings relating to the restatement of our consolidated financial statements, such as class action securities lawsuits, shareholder derivative actions and governmental proceedings.

*Intellectual Property Proceedings.* In May 2005 the Company filed a complaint in the U.S. International Trade Commission ("ITC") asserting that Qualcomm Incorporated ("Qualcomm") engaged in unfair trade practices by importing integrated circuits and other products that infringe, both directly and indirectly, five of the Company's patents relating generally to wired and wireless communications. The complaint seeks 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

**BROADCOM CORPORATION**

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

an investigation of Qualcomm based upon the allegations made in the Company's complaint. The investigation was later limited to asserted infringement of three Broadcom patents. At Qualcomm's request, the U.S. Patent and Trademark Office ("USPTO") is reexamining one 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. The Commission is currently considering the appropriate remedies for Qualcomm's infringement. A decision is expected in March 2007.

In May 2005 the Company 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 the Company's 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. Pursuant to statute, the court has stayed the remainder of this action pending the outcome of the ITC action.

The 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 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 second complaint and asserted counterclaims seeking a declaratory judgment that the Company's patents are invalid and not infringed. In November 2006 Broadcom 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. Trial has been set for May 2007.

In July 2005 Qualcomm filed a complaint against the Company in the United States District Court for the Southern District of California alleging that certain Broadcom products infringe, both directly and indirectly, seven Qualcomm patents relating generally to the transmission, reception and processing of communication signals, including radio signals and/or signals for wireless telephony. The complaint seeks a preliminary and permanent injunction against Broadcom as well as the recovery of monetary damages and attorneys' fees. Qualcomm has subsequently withdrawn two patents from the case. The Company filed an answer in September 2005 denying the allegations in Qualcomm's complaint and asserting counterclaims. The counterclaims seek a declaratory judgment that the seven Qualcomm patents are invalid and not infringed, and assert that Qualcomm has infringed, both directly and indirectly, six Broadcom patents relating generally to wired and wireless communications. The counterclaims seek preliminary and permanent injunctions against Qualcomm and the recovery of monetary damages, including treble damages for willful infringement, and attorneys' fees. The Company has subsequently withdrawn two patents from the case. In January 2006 Qualcomm amended its complaint to seek treble damages for willful infringement. Discovery has been completed, and the court has scheduled a series of five trials in this case over the period March through August 2007.

In August 2005 Qualcomm filed a second complaint against the Company in the United States District Court for the Southern District of California alleging that Broadcom breached a contract relating to Bluetooth development and seeking a declaration that two of the Company's patents relating to Bluetooth technology are invalid and not infringed. In March 2006 Qualcomm filed an amended complaint providing further details concerning the same causes of action. The Company filed an answer in April 2006 denying the allegations in the complaint and asserting counterclaims. The counterclaims assert that Qualcomm has infringed, both directly and indirectly, the same two Broadcom patents, and also allege breach of the Bluetooth contract by Qualcomm. Broadcom is seeking preliminary and permanent injunctions against Qualcomm and the recovery of monetary damages, including treble damages for willful infringement, and attorneys' fees. Discovery has been completed, and trial has been set for March 2007.

In October 2005 Qualcomm filed a third complaint against the Company 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 seeks preliminary and permanent injunctions against the Company as well as the recovery of monetary damages and attorneys' fees. The Company filed an answer in December 2005 denying the allegations in Qualcomm's complaint and asserting counterclaims seeking a declaratory judgment that the two Qualcomm patents are invalid and not infringed. Discovery in the action has been completed, and trial is currently in progress.

In March 2006 Qualcomm filed a fourth complaint against Broadcom in the United States District Court for the Southern District of California alleging that the Company had misappropriated certain Qualcomm trade secrets and that certain Broadcom products infringe, both directly and indirectly, a patent related generally to orthogonal frequency division multiplexing technology. The complaint seeks preliminary and permanent injunctions against the Company as well as the recovery of monetary damages, including double damages, and attorneys' fees. The Company filed an answer in May 2006 denying the allegations in Qualcomm's complaint and asserting counterclaims. The counterclaims seek a declaratory judgment that the Qualcomm patent is invalid and not infringed, and assert that Qualcomm has infringed, both directly and indirectly, two Broadcom patents relating generally to video technology. The counterclaims seek preliminary and permanent injunctions against Qualcomm and the recovery of monetary damages, including treble damages for willful infringement, and attorneys' fees. In June 2006 Qualcomm filed a motion for preliminary injunction against Broadcom. In October 2006 the court entered a stipulated order for preliminary injunction prohibiting Broadcom from using certain documents pending trial on the merits of the case. The Company amended its answer to add a counterclaim asserting that Qualcomm has misappropriated certain Broadcom trade secrets, and Qualcomm amended its complaint to add three individual Broadcom employees as defendants and include additional allegations of trade secret misappropriation. Discovery is ongoing, and trial has been set for October 2007.

*Antitrust Proceedings.* In July 2005 the Company 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 asserts causes of action based on breach of contract, promissory estoppel, fraud, and tortious interference with prospective economic advantage. In September 2005 the Company 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 court granted Qualcomm's motion to dismiss the complaint. In September 2006 Broadcom filed a notice of appeal to the United States Court of Appeals for the Third Circuit, where briefing is under way. No appellate hearing date has been set.

In October 2005 the Company 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. The Commission has commenced a preliminary investigation, and is determining whether to institute 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.

*Securities Litigation.* In 2001 the Company and three of its current and former executive officers were served with a number of shareholder class action complaints alleging violations of the Securities Exchange Act of 1934, as amended. The essence of the allegations was that the defendants intentionally failed to disclose and properly account for the financial impact of performance-based warrants assumed in connection with five acquisitions consummated in 2000 and 2001, which plaintiffs alleged had the effect of materially overstating the Company's reported and future financial performance. The lawsuits were consolidated into a single action before the United

States District Court for the Central District of California entitled *In re Broadcom Corp. Securities Litigation* (the “Class Action”). The court issued an order certifying a class of all persons or entities who purchased or otherwise acquired publicly traded securities of the Company, or bought or sold options on the Company’s stock, between July 31, 2000 and February 26, 2001, with certain exceptions.

By a Stipulation of Settlement (the “Stipulation”) dated as of June 24, 2005, the parties agreed to settle the Class Action. Pursuant to the Stipulation, the Class Action has been dismissed with prejudice in exchange for an aggregate payment of $150.0 million (the “Settlement Fund”), which will be distributed to class members after the payment of the costs of administering the settlement and fees and costs awarded to plaintiffs’ counsel by the court. The Company’s insurance carriers paid $40.0 million of the Settlement Fund, and the balance was paid by the Company. As part of the settlement, the Company and the other Defendants continue to deny any liability or wrongdoing with respect to the claims raised in the Class Action. In September 2005 the court granted final approval of the Stipulation and entered final judgment and an order of dismissal thereon and made effective full releases by all class members of all claims relating to the matters asserted in the Class Action. In October 2005 two objectors to the settlement filed notices of appeal before the Ninth Circuit Court of Appeals from, among other things, the order granting final approval of the settlement and the final judgment and order of dismissal. In December 2005 one of the objectors decided to voluntarily dismiss its appeal, and the parties filed a stipulation with the Ninth Circuit Court of Appeals dismissing that appeal. The second objector also decided to voluntarily dismiss its appeal, and the parties filed a stipulation in January 2006 dismissing the final appeal. The settlement, final judgment and order of dismissal are now final and no longer subject to appeal.

In February 2002 an additional complaint, entitled *Arenson, et al. v. Broadcom Corp., et al.*, was filed by 47 persons and entities in the Superior Court of the State of California for the County of Orange, against the Company and three of its current and former executive officers. The separate case, which asserted causes of action substantially identical to those asserted in the Class Action, was removed to the United States District Court for the Central District of California and consolidated with the Class Action for purposes of discovery. The Stipulation of Settlement in the Class Action provided to the *Arenson* plaintiffs the option of joining the class in the Class Action in exchange for dismissal of their claims in the separate case. In September 2005 each of the *Arenson* plaintiffs exercised that option. Accordingly, the *Arenson* plaintiffs are now bound by the terms of the Class Action settlement and the judgment in the Class Action. In October 2005 the parties filed a stipulation dismissing the *Arenson* action with prejudice.

In March 2006 a purported class action lawsuit was filed in the Superior Court of California, County of Orange, by a plaintiff who claims to be a shareholder of Broadcom. The lawsuit, entitled *Jin v. Broadcom Corporation, et al.* (Case No. 06 CC00057), named as defendants Broadcom, each of the members of our Board of Directors, certain Broadcom officers, and Henry T. Nicholas III, our co-founder. In May 2006 the plaintiff amended her complaint and added two plaintiffs, both purportedly Broadcom shareholders. The principal claims asserted in the amended complaint were that (a) disclosures in our March 27, 2006 proxy statement concerning the Second Amended and Restated Articles of Incorporation (the “Second Amended Articles”), which, among other things, increased the number of authorized shares of Broadcom’s Class A common stock, are incorrect and/or misleading; (b) Broadcom’s recent stock split, the recent amendment to our share repurchase program, and recent and proposed changes in the compensation of our non-employee directors constitute breaches of the defendants’ fiduciary duties; and (c) the defendants improperly dated Broadcom’s stock option grants to enhance defendants’ own profits on the exercise of such options. In June 2006 defendants removed the action to the United States District Court for the Central District of California (where it was assigned Case No. 06CV00573). The plaintiffs sought, and received, leave to file a further amended complaint that asserts only derivative claims on behalf of the Company. This case has now been consolidated with the other federal derivative lawsuits described below.

From May 2006 through August 2006, a number of purported Broadcom shareholders brought five putative shareholder derivative actions (the “Options Derivative Actions”) against Broadcom, our entire Board of Directors, certain current or former officers, and Henry T. Nicholas III, our co-founder, alleging that the defendants

improperly dated certain Broadcom employee stock option grants. Three of those cases, *Murphy v. McGregor, et al.* (Case No. CV06-3252 R (CWx)), *Shei v. McGregor, et al.* (Case No. SACV06-663 R (CWx)), and *Ronconi v. Dull, et al.* (Case No. SACV 06-771 R (CWx)) were filed in the United States District Court for the Central District of California. The District Court consolidated those actions and the *Jin* action described above by orders in August and October 2006, and the plaintiffs filed a consolidated amended complaint in November 2006. The remaining two putative shareholder derivative actions, *Pirelli Armstrong Tire Corp. Retiree Med. Benefits Trust v. Samueli, et al.* (Case No. 06CC0124) and *Servais v. Samueli, 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 November 2006 the defendants moved to dismiss the federal derivative action on the ground that the shareholder plaintiffs lack standing to assert claims on behalf of Broadcom. That motion is scheduled to be heard in February 2007. If the court does not grant the motion to dismiss, the individual defendants' responses to the complaint will be due three weeks after resolution of the motion to dismiss. In January 2007 the Superior Court granted defendants' motion to stay the state derivative action pending resolution of the prior-filed federal derivative action. The Company intends to vigorously defend each of the Options Derivative Actions.

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 its current or former officers and directors, entitled *Bakshi v. Samueli, et al.* (Case No. 06-5036 R (CWx)), *Mills v. Samueli, 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 Broadcom improperly backdated stock options, resulting in false or misleading disclosures concerning, among other things, Broadcom's business and financial condition. Plaintiffs also allege that Broadcom failed to account for and pay taxes on stock options properly, that the individual defendants sold Broadcom stock while in possession of material nonpublic information, and that the defendants' conduct caused the artificial inflation of Broadcom's stock price and damages to the putative plaintiff class. The plaintiffs assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. In November 2006, the Court consolidated the Options Class Actions, appointed the New Mexico State Investment Council as lead class plaintiff, ordered the lead class plaintiff to file a consolidated complaint within 60 days after a restatement of the Company's financial statements, and extended the deadline for the defendants to respond to the complaint to 60 days after the filing of the consolidated complaint. The Company intends to defend the consolidated action vigorously.

The Company has entered into indemnification agreements with each of its present and former directors and officers. Under these agreements, 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 the Class Action, the *Arenson* lawsuit, the Options Derivative Actions and Options Class Actions (other than indemnified liabilities arising from willful misconduct or conduct that is knowingly fraudulent or deliberately dishonest).

*SEC Inquiry and United States Attorney's Office Information Request.* In June 2006 the Company received an informal request for information from the staff of the Los Angeles regional office of the Securities and Exchange Commission regarding its option granting practices. In December 2006 the SEC issued a formal order of investigation and a subpoena for the production of documents. The Company is cooperating with the SEC, but does not know when the inquiry and investigation will be resolved or what, if any, actions the SEC may require it to take as part of that resolution. 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

it previously provided to the SEC. The Company is cooperating with this request. Any action by the SEC, the U.S. Attorney's Office or other governmental agency could result in civil or criminal sanctions against the Company and/or certain of its 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 the Company 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 Broadcom, which is cooperating fully with the ongoing investigation and the prosecution.

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

The pending proceedings involve complex questions of fact and law and will require the expenditure of significant funds and the diversion of other resources to prosecute and defend. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible. The resolution of any future intellectual property litigation may require the Company to pay damages for past infringement or one-time license fees or running royalties, which could adversely impact gross profit and gross margins in future periods, or could prevent Broadcom from manufacturing or selling some of its products or limit or restrict the type of work that employees involved in such litigation may perform for Broadcom. From time to time the Company 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 Broadcom to incur substantial settlement payments and costs. In addition, the settlement of any intellectual property proceeding may require the Company to obtain a license under the other party's intellectual property rights that could require one-time license fees and/or royalty payments in the future and/or to grant a license to certain of the Company's intellectual property rights to the other party under a cross-license agreement. If any of those events were to occur, Broadcom's 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 amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and subsequent reports on Forms 10-Q/A, 10-Q and 8-K, which discuss our business in greater detail.*

*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, and all earnings press releases and similar communications issued by us, for all periods ended on or before March 31, 2006 should not be relied upon and are superseded in their entirety by the information in the amended Annual Report on Form 10-K/A for the year ended December 31, 2005, the amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006 and this Report.*

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

**Purpose of Certain Restated Information Contained in this Quarterly Report on Form 10-Q**

We recently completed a voluntary review of our equity award practices. The voluntary review, which commenced in May 2006 and covered all grants of options and other equity awards made since our initial public offering in April 1998, was directed by the Audit Committee of our Board of Directors. The voluntary review consisted of two components: (1) an equity award review to determine whether we used appropriate measurement dates for option grants and other equity awards made under our extensive employee equity award programs, which was conducted with the assistance of outside legal counsel Irell & Manella LLP and forensic accountants FTI Consulting Inc., and (2) an investigation of the conduct and performance of Broadcom's officers, employees and directors who were involved in the stock option granting process, which was conducted with the assistance of independent legal counsel Kaye Scholer LLP and forensic accountants LECG, LLC.

Based on the results of the equity award review, the Audit Committee concluded that, pursuant to Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25, and related interpretations, the accounting measurement dates for most of the stock options granted between June 1998 and May 2003, covering options to purchase 232.9 million shares of our Class A or Class B common stock, differed from the measurement dates previously used for such awards. As a result, revised measurement dates were applied to the affected option grants and Broadcom has recorded a total of $2.259 billion in additional stock-based compensation expense for the years 1998 through 2005. After related tax adjustments of $38.7 million, the restatement resulted in total net adjustments of $2.220 billion for the years 1998 through 2005. This amount is net of forfeitures related to employee terminations. The additional stock-based compensation expense is being recorded over the service period relating to each option, typically four years, with approximately 95% of the expense being recorded in years prior to 2004.

As a consequence of these adjustments, our audited consolidated financial statements and related disclosures for the three years ended December 31, 2005 and our consolidated statements of operations and consolidated balance sheet data for the five years ended December 31, 2005 have been restated. In addition, the unaudited quarterly unaudited financial information and financial statements for interim periods of 2005 and 2004 and unaudited condensed consolidated financial statements for the three months ended March 31, 2006 have been restated. We have also restated the stock-based compensation expense footnote information calculated under SFAS 123 and SFAS 148 under the disclosure-only alternatives of those pronouncements for the years 2003 through 2005 and for the interim periods of 2005 and 2004. This restated financial and footnote information is included in our amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006 filed with the SEC today. The adjustments did not affect Broadcom's previously-reported cash, cash equivalents or marketable securities balances in any of the restated periods.

The amounts of the adjustments we recorded for the years 1998 through 2005 were calculated pursuant to APB 25. Effective January 1, 2006 we adopted SFAS 123R, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their respective grant date fair values. As a result, the $14.3 million of additional stock-based compensation expense that we recorded in connection with our equity award review in the three months ended March 31, 2006 is calculated pursuant to SFAS 123R.

The following table summarizes additional stock-based compensation expense and related tax adjustments resulting from the review of our equity award practices on a quarterly basis for 2005 and the three months ended March 31, 2006:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2005 | June 30, 2005 | September 30, 2005 | December 31, 2005 | March 31, 2006(1) |
| | | | (In thousands) | | |
| Additional stock-based compensation expense | $ 12,845 | $ 11,599 | $ 10,362 | $ 7,205 | $ 14,295 |
| Other tax adjustments | 223 | 441 | 1,084 | 881 | 2,893 |
| Additional operating expenses | 13,068 | 12,040 | 11,446 | 8,086 | 17,188 |
| Income tax expense (benefit) | (8,255) | 8,255 | — | — | — |
| Net adjustments | $ 4,813 | $ 20,295 | $ 11,446 | $ 8,086 | $ 17,188 |

(1) These amounts are not included in the total additional stock-based compensation expense and related tax adjustments recorded for the years 1998 through 2005 discussed above because they are calculated in accordance with SFAS 123R, which we adopted effective January 1, 2006.

The following table summarizes the impact of the additional stock-based compensation expense and related income tax adjustments (but not "other tax adjustments") resulting from the review of our equity award practices on previously reported stock-based compensation expense on a quarterly basis for 2005 and the three months ended March 31, 2006:

| | Stock-Based Compensation Expense | | |
|---|---|---|---|
| | As Reported | Adjustments | As Restated |
| | | (In thousands) | |
| Three months ended March 31, 2005 | $ 11,294 | $ 4,590 | $ 15,884 |
| Three months ended June 30, 2005 | 14,548 | 19,854 | 34,402 |
| Three months ended September 30, 2005 | 16,584 | 10,362 | 26,946 |
| Three months ended December 31, 2005 | 17,578 | 7,205 | 24,783 |
| Year ended December 31, 2005 | $ 60,004 | $ 42,011 | $ 102,015 |
| Three months ended March 31, 2006 | $ 93,691 | $ 14,295 | $ 107,986 |

**Impact of the Additional Stock-Based Compensation Expense-Related Adjustments on the Unaudited Condensed Consolidated Financial Statements**

***Unaudited Condensed Consolidated Statements of Operations***

The following tables present the impact of the additional stock-based compensation expense-related adjustments on our previously-reported unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2005:

| | Three Months Ended June 30, 2005 | | | Six Months Ended June 30, 2005 | | |
|---|---|---|---|---|---|---|
| | As Reported | Adjustments | As Restated | As Reported | Adjustments | As Restated |
| | (In thousands, except per share data) | | | | | |
| Net revenue | $ 604,861 | $ — | $ 604,861 | $ 1,155,206 | $ — | $ 1,155,206 |
| Cost of revenue | 283,455 | 637 | 284,092 | 549,571 | 1,340 | 550,911 |
| Gross profit | 321,406 | (637) | 320,769 | 605,635 | (1,340) | 604,295 |
| Operating expense: | | | | | | |
| Research and development | 153,634 | 8,357 | 161,991 | 299,504 | 17,071 | 316,575 |
| Selling, general and administrative | 61,853 | 3,046 | 64,899 | 120,250 | 6,697 | 126,947 |
| Amortization of purchased intangible assets | 1,040 | — | 1,040 | 1,952 | — | 1,952 |
| Settlement costs | 110,000 | — | 110,000 | 110,000 | — | 110,000 |
| In-process research and development | — | — | — | 6,652 | — | 6,652 |
| Income (loss) from operations | (5,121) | (12,040) | (17,161) | 67,277 | (25,108) | 42,169 |
| Interest income, net | 10,678 | — | 10,678 | 18,636 | — | 18,636 |
| Other income, net | 679 | — | 679 | 777 | — | 777 |
| Income (loss) before income taxes | 6,236 | (12,040) | (5,804) | 86,690 | (25,108) | 61,582 |
| Provision (benefit) for income taxes | (8,825) | 8,255 | (570) | 2,447 | — | 2,447 |
| Net income (loss) | $ 15,061 | $ (20,295) | $ (5,234) | $ 84,243 | $ (25,108) | $ 59,135 |
| Net income (loss) per share (basic) | $ 0.03 | $ (0.04) | $ (0.01) | $ 0.17 | $ (0.05) | $ 0.12 |
| Net income (loss) per share (diluted) | $ 0.03 | $ (0.04) | $ (0.01) | $ 0.16 | $ (0.05) | $ 0.11 |
| Weighted average shares (basic) | 502,353 | — | 502,353 | 499,779 | — | 499,779 |
| Weighted average shares (diluted) | 544,796 | (42,443) | 502,353 | 540,967 | (4,109) | 536,858 |

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

| | Three Months Ended June 30, 2005 | | | Six Months Ended June 30, 2005 | | |
|---|---|---|---|---|---|---|
| | As Reported | Adjustments | As Restated | As Reported | Adjustments | As Restated |
| | (In thousands) | | | | | |
| Cost of revenue | $ 394 | $ 613 | $ 1,007 | $ 762 | $ 1,304 | $ 2,066 |
| Research and development | 9,915 | 7,957 | 17,872 | 16,940 | 16,469 | 33,409 |
| Selling, general and administrative | 4,239 | 3,029 | 7,268 | 8,140 | 6,671 | 14,811 |
| | $ 14,548 | $ 11,599 | $ 26,147 | $ 25,842 | $ 24,444 | $ 50,286 |

***Consolidated Balance Sheet***

The net impact of the additional stock-based compensation expense-related adjustments on our previously-reported unaudited condensed consolidated balance sheet was an increase in wages and related benefits and a decrease in total shareholders' equity for related tax adjustments of $4.9 million at December 31, 2005.

***Stock-Based Compensation in Accordance with SFAS 123***

In accordance with the requirements of the disclosure-only alternative of SFAS 123, set forth below is a pro forma illustration of the effect on net income (loss) and net income (loss) per share information for the three and six months ended June 30, 2005, computed as if the Company had valued stock-based awards to employees using the Black-Scholes option pricing model instead of applying the guidelines provided by APB 25. In addition, the tables below present the impact of the additional stock-based compensation expense-related adjustments on the Company's previously-reported pro forma illustrations for the stated periods:

| | Three Months Ended June 30, 2005 | | | Six Months Ended June 30, 2005 | | |
|---|---|---|---|---|---|---|
| | As Reported | Adjustments | As Restated | As Reported | Adjustments | As Restated |
| | (In thousands, except per share data) | | | | | |
| Net income (loss) | $ 15,061 | $ (20,295) | $ (5,234) | $ 84,243 | $ (25,108) | $ 59,135 |
| Add: Stock-based compensation expense included in net income (loss) | 14,548 | 19,854 | 34,402 | 25,842 | 24,444 | 50,286 |
| Deduct: Stock-based compensation expense determined under the fair value method | (108,565) | (49,368) | (157,933) | (250,569) | (73,287) | (323,856) |
| Net loss — pro forma | $ (78,956) | $ (49,809) | $ (128,765) | $ (140,484) | $ (73,951) | $ (214,435) |
| Net income (loss) per share (basic) | $ 0.03 | $ (0.04) | $ (0.01) | $ 0.17 | $ (0.05) | $ 0.12 |
| Net income (loss) per share (diluted) | $ 0.03 | $ (0.04) | $ (0.01) | $ 0.16 | $ (0.05) | $ 0.11 |
| Net loss per share (basic and diluted) — pro forma | $ (0.16) | $ (0.10) | $ (0.26) | $ (0.28) | $ (0.15) | $ (0.43) |

**Overview**

Broadcom Corporation is a 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; mobile multimedia and applications processors; mobile power management; and Voice over Internet Protocol (VoIP) gateway and telephony systems.

*Net Revenue.* 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 to manufacture all of our semiconductor products.

Our net revenue is generated principally by sales of our semiconductor products. We derive the remaining balance of our net revenue predominantly from software licenses, development agreements, support and

maintenance agreements and cancellation fees. In addition, the majority of our sales occur through the efforts of our direct sales force. The remaining balance of our sales occur through distributors.

The following table presents details of our net revenue:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Sales of semiconductor products | 98.5% | 98.5% | 99.0% | 98.5% |
| Other | 1.5 | 1.5 | 1.0 | 1.5 |
| | 100.0% | 100.0% | 100.0% | 100.0% |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Sales made through direct sales force | 83.0% | 84.8% | 82.6% | 85.3% |
| Sales made through distributors | 17.0 | 15.2 | 17.4 | 14.7 |
| | 100.0% | 100.0% | 100.0% | 100.0% |

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;
- our ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a cost effective and timely manner;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;
- seasonality in the demand for consumer wired and wireless communication products into which our solutions 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 in the three months ended June 30, 2006 and prior periods may not 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 Broadcom solutions that are incorporated into consumer products, sales of which are typically subject to greater seasonality and greater volume fluctuations than non-consumer OEM products.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Five largest customers as a group | 45.4% | 46.5% | 45.9% | 50.5% |

We expect that our largest customers will continue to account for a substantial portion of our net revenue in 2006 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.

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, as a percentage of total net revenue was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Asia (primarily in Taiwan, Korea, China and Japan) | 18.9% | 16.0% | 19.4% | 16.6% |
| Europe (primarily in France and the United Kingdom) | 10.2 | 8.1 | 9.8 | 7.4 |
| Other | 0.3 | 0.5 | 0.4 | 0.2 |
| | 29.4% | 24.6% | 29.6% | 24.2% |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Asia (primarily in Taiwan, Korea, and China) | 79.1% | 72.9% | 78.5% | 70.6% |
| Europe (primarily in France and the United Kingdom) | 4.2 | 4.0 | 3.6 | 4.3 |
| Other | 4.0 | 6.2 | 5.3 | 6.8 |
| | 87.3% | 83.1% | 87.4% | 81.7% |

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;
- stock-based compensation expense;
- the position of our products in their respective life cycles;
- the effects of competition;
- the effects of competitive pricing programs;
- manufacturing cost efficiencies and inefficiencies;
- fluctuations in direct product costs such as wafer pricing and assembly, packaging and testing costs, and overhead costs;
- provisions for excess or obsolete inventories;
- product warranty costs;
- amortization of purchased intangible assets; and
- licensing and royalty arrangements.

*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;

- settlement costs;
- amortization of purchased intangible assets;
- in-process research and development, or IPR&D;
- 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 June 30, 2006 our net income was $106.1 million as compared to a net loss of $5.2 million in the three months ended June 30, 2005, a difference of $111.3 million. This improvement in profitability was the direct result of a 55.6% increase in net revenue. These improvements were partially offset by an increase in provisions for warranty costs of $2.3 million and an increase in stock-based compensation of $106.3 million.

In the six months ended June 30, 2006 our net income was $223.8 million as compared to $59.1 million in the six months ended June 30, 2005, a difference of $164.6 million. This improvement in profitability was the direct result of a 59.4% increase in net revenue and a 6.7 percentage point reduction in operating expenses as a percentage of net revenue. These improvements were partially offset by an increase in provisions for excess and obsolete inventory and warranty costs of $10.6 million and an increase in stock-based compensation of $190.2 million.

*Product Cycles.* The cycle for test, evaluation and adoption of our products by customers can range from three to more than six 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/or 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 4 of Notes to Unaudited Condensed Consolidated Financial Statements for information related to the acquisition made during the six months ended June 30, 2006.

*Business Enterprise Segments.* We operate in one reportable operating segment, wired and wireless broadband communications. Financial Accounting Standards Board, or FASB, 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 June 30, 2006, 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;
- 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 similar gross margins, and have similar research and development expenses and similar selling, general and administrative expenses. The causes for variation among each of 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 as of June 30, 2006 share similar economic characteristics, we aggregate 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 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, 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 accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. 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 critical accounting policies require us to make significant judgments and estimates in the preparation of our unaudited condensed consolidated financial statements:

- *Net Revenue.* We recognize product revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (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, when applicable. 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, at which time the terms of the sale become fixed and determinable. 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.

- *Sales Returns 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. 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 of our customers 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. 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 for 2006 and Thereafter.* Effective January 1, 2006 we adopted SFAS 123R, which requires all share-based payments to employees, including grants of employee stock options, restricted stock units and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. Under this standard, the fair value of each share-based payment award 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 share-based payment awards. The Black-Scholes model meets the requirements of SFAS 123R; however, the fair values generated by the model may not be indicative of the actual fair values of our awards as it does not consider certain factors important to our awards, such as continued employment, periodic vesting requirements and 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 awards 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 terms of our awards. The dividend yield assumption is based on our history and expectation of dividend payouts. The fair value

of our restricted stock units is based on the fair market value of our Class A common stock on the date of grant. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense recognized in our financial statements in 2006 and thereafter is based on awards that are ultimately expected to vest. We evaluate the assumptions used to value our 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. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees or we assume unvested equity awards in connection with acquisitions. Had we adopted SFAS 123R in prior periods, the magnitude of the impact of that standard on our results of operations would have approximated the impact of SFAS 123 assuming the application of the Black-Scholes option pricing model as described in the disclosure of pro forma net income (loss) and pro forma net income (loss) per share in Notes 1 and 7 of our Notes to Unaudited Condensed Consolidated Financial Statements. See "*Critical Accounting Policies and Estimates Applied to the Restatement of Broadcom's Consolidated Financial Statements*" for additional discussion of the estimates and assumptions used to calculated the adjustments to our consolidated financial statements for stock option grants awarded between June 1998 and May 2003.

- *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 and estimates used may be incorrect. 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 Tax Contingencies.* We utilize the 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 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 such 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. We record estimated income tax liabilities to the extent they are probable and can be reasonably estimated. As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws

and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, 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 to 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 any future intellectual property litigation may require us to pay damages for past infringement or one-time license fees or ongoing 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 litigation may be materially different from our estimates, which could result in the need to record additional costs.

- *Critical Accounting Policies and Estimates Applied to the Restatement of Broadcom's Consolidated Financial Statements.* The preparation of our restated consolidated financial statements required us to make estimates and assumptions that affected the amount of the recorded additional deferred compensation and stock-based compensation expense. We used three methodologies to calculate the adjustments to our consolidated financial statements for stock option grants awarded between June 1998 and May 2003.

Equity Edge® Entry Date

In many instances, the new measurement date applied to an affected option grant was the date the grant was entered into our Equity Edge software system, which we used to monitor and administer our equity award programs from 1998 through 2006. This methodology was used for: (1) option grants to employees other than Section 16 Officers for which we were unable to locate contemporaneous documentation confirming that an Equity Award Committee meeting occurred on the indicated grant date; (2) those broad-based option grants for which we had not completed allocations of options to individual employees by the time the grant date was selected by the Equity Award or Compensation Committee; and (3) those option grants for which the grant date was selected after the date indicated on the unanimous written consent documenting the approval of those options. When an option grant was entered into Equity Edge, the entry date was recorded by the system. Also, once option grants were entered into Equity Edge, individual grant information was generally transmitted to an online brokerage website on which employees were able to view their specific option grants. We believe in most cases, the Equity Edge entry date represents the best approximation of the date on which the measurement date criteria of APB 25 were met. Therefore, in each of the three circumstances described above, we usually determined that the date on which an option grant was entered into the Equity Edge system represented the best approximation of the appropriate measurement date under APB 25.

We considered three alternate revised measurement dates or values for these option grants:

- First, we considered alternate measurement dates based on the date seven days prior to the date of each grant's entry into Equity Edge. This alternative was based on evidence obtained during our equity award review that indicated that most grants were entered into Equity Edge a number of

days after the date on which the measurement date criteria of APB 25 had been met. Had we used the dates seven days prior to the dates of entry into Equity Edge, rather than the later Equity Edge entry dates, our total gross additional deferred compensation adjustment of $2.672 billion would have been reduced by $24.2 million.

- Second, we considered measurement dates based on the date fourteen days prior to the date of each grant's entry into Equity Edge. Again, this alternative was based on evidence obtained during our equity award review which indicated that most grants were entered into Equity Edge a number of days after the date on which the measurement date criteria of APB 25 had been met. Had we used the dates fourteen days prior to the dates of entry into Equity Edge rather than the later Equity Edge entry dates, our total gross additional deferred compensation adjustment of $2.672 billion would have been reduced by $116.7 million.
- Third, we considered an alternate measurement approach based on the average closing stock price during the period between the date indicated on the unanimous written consent documenting each option grant approval and the date of each grant's entry into Equity Edge. Had we used the average closing stock prices as the basis for measurement rather than measurement on the dates of entry into Equity Edge, our total gross additional deferred compensation adjustment of $2.672 billion would have been reduced by $409.5 million.

With respect to option grants for which we were unable to locate contemporaneous documentation confirming that an Equity Award Committee meeting had occurred on the indicated grant date, we also considered using the indicated grant date as the measurement date under APB 25. Although this approach would have resulted in a substantially lower deferred compensation adjustment as compared to the methodology we used, we were not able to conclude that the indicated grant date represented the best approximation of the date the terms of the option were determined with finality. We also considered whether variable accounting should apply to such option grants. Generally, variable accounting applies when a particular grant's exercise price, the number of shares, or both, are unknown until after the date of grant. Variable accounting could also be applicable if the option grant were subject to some modification of terms. In our particular circumstances, the exercise prices and number of shares underlying the affected option grants were known and not subject to any change, and therefore we determined that variable accounting is not appropriate for these awards.

Date of Execution of Unanimous Written Consents

For option grants to executive officers, as defined in Section 16 of the Securities Exchange Act of 1934, as amended, or Section 16 Officers, for which we were unable to locate contemporaneous documentation confirming that a Compensation Committee meeting occurred on the indicated grant date, the new measurement date applied to the affected option grant was the date that the unanimous written consent ratifying the option grant was likely signed, rather than the "as of" date specified on the consent. The date that each unanimous written consent ratifying the option grant was likely signed was determined based either on interview evidence indicating that a unanimous written consent was signed on a particular Board of Directors meeting date, or a facsimile header indicating the date on which a unanimous written consent was signed and returned to Broadcom.

With respect to these option grants we also considered using the indicated grant date or the date of entry into the Equity Edge system as the measurement date under APB 25. Had we used the indicated grant date, our total gross additional deferred compensation adjustment of $2.672 billion would have been reduced by $73.7 million. Had we used the dates of entry into the Equity Edge system in these instances rather than the dates that the unanimous written consents ratifying these Section 16 Officer option grants were likely signed, our additional deferred compensation adjustment would have been reduced by $5.6 million.

Date of Notification to Employee-Recipients

In those instances in which option grants were awarded but we did not notify the employees of such option grants for an extended period, the additional deferred compensation was calculated based on our best approximation of the date on which notification of the option grant to the affected employee occurred and the fair market value of the shares at the time of notification. For 78% of these option grants, we located copies of written grant notifications, which were signed and dated by the employee-recipient, or signed by the employee-recipient and dated by the Shareholder Services or Human Resources Department when received. While we believe that notification is not an explicit criterion required by APB 25 to establish a measurement date, in these instances we determined that the date of notification to those employees represented the best approximation of the date on which the measurement date criteria could have been met with finality, and that the date recorded on the written notification represented the best approximation of the appropriate measurement date under APB 25. For each of the remaining 22% of the affected option grants for which we were unable to locate documentation of written option grant notification (representing fewer than 0.6% of the total number of grants made from June 1998 through May 2003), we identified an approximate range of dates during which employee notification likely occurred. The ranges were determined based on periodic option grant reports that were prepared using the Equity Edge system. We concluded that the average closing stock price during each date range represented the best approximation of the intrinsic value of each option grant for which we were unable to locate documentation of written option grant notification.

The above conclusion is based on a test in which we measured three alternate values for the 78% of grants for which we were able to ascertain actual notification dates: (1) the average closing stock price during the notification date range; (2) the highest closing stock price during the notification date range; and (3) the lowest closing stock price during the notification date range for each grant. The average price produced the result that most closely approximated the amount of additional stock-based compensation expense resulting from the actual notice dates:

| Method | Gross Additional Stock-Based Compensation Expense | Difference from Actual Notice | % Difference |
|---|---|---|---|
| *Actual Notice* | *$ 403.7 million* | | |
| Average Price | $ 386.4 million | $(17.3) million | (4.3)% |
| Highest Price | $ 597.6 million | $193.9 million | 48.0% |
| Lowest Price | $ 179.6 million | $(224.1) million | (55.5)% |

Had we used the dates of entry into the Equity Edge system in these instances, rather than the later notification dates, our total gross additional deferred compensation adjustment would have been reduced by $251.1 million.

**Results of Operations for the Three and Six Months Ended June 30, 2006 Compared to the Three and Six Months Ended June 30, 2005**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 (Restated) | 2006 | 2005 (Restated) |
| Net revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of revenue(1) | 48.6 | 47.0 | 48.4 | 47.7 |
| Gross profit | 51.4 | 53.0 | 51.6 | 52.3 |
| Operating expense: | | | | |
| Research and development(1) | 29.7 | 26.8 | 28.9 | 27.4 |
| Selling, general and administrative(1) | 13.0 | 10.7 | 12.7 | 11.0 |
| Amortization of purchased intangible assets | 0.1 | 0.1 | 0.1 | 0.2 |
| In-process research and development | — | — | 0.3 | 0.5 |
| Restructuring costs (reversal) | — | — | — | — |
| Settlement costs | — | 18.2 | — | 9.5 |
| Income (loss) from operations | 8.6 | (2.8) | 9.6 | 3.7 |
| Interest income, net | 3.0 | 1.7 | 2.8 | 1.5 |
| Other income, net | 0.2 | 0.1 | 0.2 | 0.1 |
| Income (loss) before income taxes | 11.8 | (1.0) | 12.6 | 5.3 |
| Provision (benefit) for income taxes | 0.5 | (0.1) | 0.4 | 0.2 |
| Net income (loss) | 11.3% | (0.9)% | 12.2% | 5.1% |

(1) The percentages included in the three and six months ended June 30, 2006 reflect the adoption of SFAS 123R. In accordance with the modified prospective transition method, our unaudited condensed consolidated statements of operations for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. See Notes 1 and 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

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

The following tables present net revenue, cost of revenue and gross profit for the three and six months ended June 30, 2006 and 2005:

| | Three Months Ended June 30, 2006 | | Three Months Ended June 30, 2005 | | | |
|---|---|---|---|---|---|---|
| | Amount | % of Net Revenue | Amount (Restated) | % of Net Revenue | Increase | % Change |
| | (In thousands, except percentages) | | | | | |
| Net revenue | $ 941,131 | 100.0% | $ 604,861 | 100.0% | $ 336,270 | 55.6% |
| Cost of revenue(1) | 457,374 | 48.6 | 284,092 | 47.0 | 173,282 | 61.0 |
| Gross profit | $ 483,757 | 51.4% | $ 320,769 | 53.0% | $ 162,988 | 50.8 |

| | Six Months Ended June 30, 2006 | | Six Months Ended June 30, 2005 | | | |
|---|---|---|---|---|---|---|
| | Amount | % of Net Revenue | Amount | % of Net Revenue | Increase | % Change |
| | | | (Restated) | | | |
| | (In thousands, except percentages) | | | | | |
| Net revenue | $ 1,841,778 | 100.0% | $ 1,155,206 | 100.0% | $ 686,572 | 59.4% |
| Cost of revenue(1) | 891,583 | 48.4 | 550,911 | 47.7 | 340,672 | 61.8 |
| Gross profit | $ 950,195 | 51.6% | $ 604,295 | 52.3% | $ 345,900 | 57.2 |

(1) The amounts included in the three and six months ended June 30, 2006 reflect the adoption of SFAS 123R. In accordance with the modified prospective transition method, our unaudited condensed consolidated statements of operations for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. See Notes 1 and 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

*Net Revenue.* Our revenue is generated principally by sales of our semiconductor products. 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 their respective contributions to the increase in net revenue in the three months ended June 30, 2006 as compared to the three months ended June 30, 2005:

| | Three Months Ended June 30, 2006 | | Three Months Ended June 30, 2005 | | | |
|---|---|---|---|---|---|---|
| | Amount | % of Net Revenue | Amount | % of Net Revenue | Increase | % Change |
| | (In thousands, except percentages) | | | | | |
| Enterprise networking | $ 305,213 | 32.5% | $ 253,153 | 41.9% | $ 52,060 | 20.6% |
| Broadband communications | 357,103 | 37.9 | 225,735 | 37.3 | 131,368 | 58.2 |
| Mobile and wireless | 278,815 | 29.6 | 125,973 | 20.8 | 152,842 | 121.3 |
| Net revenue | $ 941,131 | 100.0% | $ 604,861 | 100.0% | $ 336,270 | 55.6 |

Our enterprise networking products include Ethernet transceivers, controllers, switches, broadband network and security processors, server chipsets and storage 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 HD DVD and personal video recording devices. Our mobile and wireless products include wireless LAN, cellular, Bluetooth, mobile multimedia and VoIP solutions.

The increase in net revenue from our enterprise networking target market resulted primarily from an increase in net revenue attributable to our enterprise Ethernet, network switching and controller products. The increase in net revenue from our broadband communications target market resulted from increases in cable modems, DSL applications and direct broadcast satellite. The increase in net revenue from our mobile and wireless target market resulted primarily from strength in our Bluetooth, mobile multimedia, cellular and wireless LAN product offerings.

The following table presents net revenue from each of our major target markets and their respective contributions to net revenue in the six months ended June 30, 2006 as compared to the six months ended June 30, 2005:

| | Six Months Ended June 30, 2006 | | Six Months Ended June 30, 2005 | | | |
|---|---|---|---|---|---|---|
| | Amount | % of Net Revenue | Amount | % of Net Revenue | Increase | % Change |
| | (In thousands, except percentages) | | | | | |
| Enterprise networking | $ 610,803 | 33.1% | $ 487,106 | 42.2% | $ 123,697 | 25.4% |
| Broadband communications | 688,255 | 37.4 | 432,943 | 37.5 | 255,312 | 59.0 |
| Mobile and wireless | 542,720 | 29.5 | 235,157 | 20.3 | 307,563 | 130.8 |
| Net revenue | $ 1,841,778 | 100.0% | $ 1,155,206 | 100.0% | $ 686,572 | 59.4 |

The increase in net revenue from our enterprise networking target market resulted primarily from an increase in net revenue attributable to our enterprise Ethernet, network switching and controller products. The increase in net revenue in our broadband communications target market resulted from increases in cable modems, DSL applications and direct broadcast satellite. In our mobile and wireless target market, we experienced strong growth in our Bluetooth, mobile multimedia and wireless LAN offerings.

The following table presents net revenue from each of our major target markets and their respective contributions to net revenue in the three months ended June 30, 2006 as compared to the three months ended March 31, 2006:

| | Three Months Ended June 30, 2006 | | Three Months Ended March 31, 2006 | | | |
|---|---|---|---|---|---|---|
| | Amount | % of Net Revenue | Amount | % of Net Revenue | Increase (Decrease) | % Change |
| | (In thousands, except percentages) | | | | | |
| Enterprise networking | $ 305,213 | 32.5% | $ 305,590 | 33.9% | $ (377) | (0.1)% |
| Broadband communications | 357,103 | 37.9 | 331,152 | 36.8 | 25,951 | 7.8 |
| Mobile and wireless | 278,815 | 29.6 | 263,905 | 29.3 | 14,910 | 5.6 |
| Net revenue | $ 941,131 | 100.0% | $ 900,647 | 100.0% | $ 40,484 | 4.5 |

Although our enterprise networking target market was flat, we experienced strong growth in our controller and PHY products offset by a decrease in our switching products. The increase in net revenue in our broadband communications target market resulted primarily from an increase in net revenue from our solutions for DSL applications, cable set-top boxes and cable modems, partially offset by a decrease in our direct broadcast satellite revenue. In our mobile and wireless target market, we experienced strong growth in our wireless LAN offerings, partially offset by a decline in our mobile multimedia and Bluetooth business.

We recorded rebates to certain customers in the amounts of $56.8 million and $53.1 million in the three months ended June 30, 2006 and 2005, respectively, and $111.1 million and $105.2 million in the six months ended June 30, 2006 and 2005, respectively. We account for rebates in accordance with FASB Emerging Issues Task Force, or EITF, Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, and, accordingly, record reductions to revenue for rebates in the same period that the related revenue is recorded. 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 on the level of overall sales to customers that participate in our rebate programs and as specific rebate programs contractually end and unclaimed rebates are no longer subject to payment. However, we do not expect rebates to impact our gross margin as our prices to these customers and corresponding revenue and margins are already net of such rebates. Historically, reversals of rebate accruals have not been material.

*Cost of Revenue and Gross Profit.* Cost of revenue includes the cost of purchasing the 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, prototyping costs, amortization of purchased technology, and manufacturing overhead, including costs of personnel and equipment associated with manufacturing support, provisions for excess or obsolete inventories, product warranty costs and stock-based compensation expense for personnel engaged in manufacturing support.

The increase in absolute dollars of gross profit in the three and six months ended June 30, 2006 as compared to the three and six months ended June 30, 2005 resulted primarily from the 55.6% and 59.4% increase in net revenue, respectively. Gross margin decreased from 53.0% in the three months ended June 30, 2005 to 51.4% in the three months ended June 30, 2006. Gross margin decreased from 52.3% in the six months ended June 30, 2005 to 51.6% in the six months ended June 30, 2006. The primary factors that contributed to these reductions in gross margin were (i) an increase in stock-based compensation expense resulting from the adoption of SFAS 123R, as well as an increase in provisions for excess and obsolete inventory and warranty costs, partially offset by (ii) improvements as a percentage of revenue in manufacturing overhead due to our significant growth. For a further discussion of stock-based compensation expense, see "Stock-Based Compensation Expense," below.

Gross margin has been and will likely continue to be impacted in the future by competitive pricing programs, fluctuations in silicon wafer costs and assembly, packaging and testing costs, product warranty costs, provisions for excess or obsolete inventories, possible future changes in product mix, the introduction of products with lower margins, stock-based compensation expense, and the amortization of purchased technology, among other factors.

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

The following tables present research and development and selling, general and administrative expenses for the three and six months ended June 30, 2006 and 2005:

| | Three Months Ended June 30, 2006(1) | | Three Months Ended June 30, 2005 | | | |
|---|---|---|---|---|---|---|
| | Amount | % of Net Revenue | Amount (Restated) | % of Net Revenue | Increase | % Change |
| | (In thousands, except percentages) | | | | | |
| Research and development | $ 280,024 | 29.7% | $ 161,991 | 26.8% | $ 118,033 | 72.9% |
| Selling, general and administrative | 121,982 | 13.0 | 64,899 | 10.7 | 57,083 | 88.0 |

| | Six Months Ended June 30, 2006(1) | | Six Months Ended June 30, 2005 | | | |
|---|---|---|---|---|---|---|
| | Amount | % of Net Revenue | Amount (Restated) | % of Net Revenue | Increase | % Change |
| | (In thousands, except percentages) | | | | | |
| Research and development | $ 531,718 | 28.9% | $ 316,575 | 27.4% | $ 215,143 | 68.0% |
| Selling, general and administrative | 234,881 | 12.7 | 126,947 | 11.0 | 107,934 | 85.0 |

(1) The amounts included in the three and six months ended June 30, 2006 reflect the adoption of SFAS 123R. In accordance with the modified prospective transition method, our unaudited condensed consolidated statements of operations for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. See Notes 1 and 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

*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, costs related to engineering design tools and computer hardware, prototyping costs, subcontracting costs and facilities expenses.

The increase in research and development expense in the three and six months ended June 30, 2006 as compared to the three and six months ended June 30, 2005 resulted primarily from increase of $68.5 million and $123.0 million, respectively, in stock-based compensation and an increase of $32.5 million and $59.1 million, respectively, in personnel-related expenses. These increases are primarily attributable to (i) our adoption of SFAS 123R, (ii) an increase in the number of employees engaged in research and development activities since June 30, 2005, resulting from both direct hiring and acquisitions, and (iii) an increase in cash compensation levels. For a further discussion of stock-based compensation expense, see “Stock-Based Compensation Expense,” below.

Based upon past experience, we anticipate that research and development expense will continue to increase over the long term as a result of the growth and diversification of the markets we serve, new product opportunities, changes in our compensation policies, and any expansion into new markets and technologies.

We remain committed to significant research and development efforts to extend our technology leadership in the wired and wireless communications markets in which we operate. We currently hold more than 1,900 U.S. 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 increase in selling, general and administrative expense in the three and six months ended June 30, 2006 as compared to the three and six months ended June 30, 2005 resulted primarily from increase of $31.7 million and $55.8 million, respectively, in stock-based compensation, and an increase of $23.7 million and $46.9 million increases in legal fees and personnel-related expenses. These increases are primarily attributable to (i) our adoption of SFAS 123R, (ii) the cost of ongoing litigation, (iii) an increase in the number of employees engaged in selling, general and administrative activities since June 30, 2005, resulting from both direct hiring and acquisitions, and (iv) an increase in cash compensation levels. For a further discussion of stock-based compensation expense, see "Stock-Based Compensation Expense," below. For a further discussion of our litigation matters, see Note 8 of Notes to Unaudited Condensed Consolidated Financial Statements.

Based upon past experience, we anticipate that selling, general and administrative expense will continue to increase over the long-term to support any expansion of our operations through periodic changes in our infrastructure, changes in our compensation policies, acquisition and integration activities, international operations, and current and future litigation.

***Stock-Based Compensation Expense***

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006(1) | 2005 (Restated) | 2006(1) | 2005 (Restated) |
| | (In thousands) | | | |
| Cost of revenue | $ 7,105 | $ 1,007 | $ 13,391 | $ 2,066 |
| Research and development | 86,420 | 17,872 | 156,425 | 33,409 |
| Selling, general and administrative | 38,940 | 7,268 | 70,635 | 14,811 |
| | $ 132,465 | $ 26,147 | $ 240,451 | $ 50,286 |

(1) The amounts included in the three and six months ended June 30, 2006 reflect the adoption of SFAS 123R. In accordance with the modified prospective transition method, our unaudited condensed consolidated statements of operations for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. See Notes 1 and 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

The adoption of SFAS 123R will continue to have a significant adverse impact on our reported results of operations, although it should not have a material impact on our overall financial position. The amount of unearned stock-based compensation currently estimated to be expensed in the period 2006 through 2011 related to unvested share-based payment awards at June 30, 2006 is $1.054 billion. Of this amount, $218.1 million, $390.7 million $257.8 million, $159.3 million and $27.9 million are currently estimated to be recorded in the remainder of 2006, in 2007, 2008, 2009 and thereafter, respectively. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately 1.6 years. Approximately 97% of the total unearned stock-based compensation at June 30, 2006 will be expensed by the end of 2009. 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. 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 granted employee stock options to purchase 12.4 million shares of our Class A common stock and 6.2 million restricted stock units in the second quarter of 2006 as part of our Class A regular annual equity compensation review program. We will recognize up to $415.4 million of stock-based compensation expense, net of forfeitures, related to those awards. This unearned stock-based compensation is being 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 above:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | (In thousands) | | | |
| Cost of revenue | $ 2,744 | $ 3,244 | $ 5,725 | $ 5,534 |
| Operating expense | 605 | 1,040 | 1,688 | 1,952 |
| | $ 3,349 | $ 4,284 | $ 7,413 | $ 7,486 |

At June 30, 2006 the unamortized balance of purchased intangible assets that will be amortized to future cost of revenue and other operating expenses was $30.4 million and $3.6 million, respectively. This expense will be amortized ratably through 2011. If we acquire additional purchased intangible assets in the future, our cost of revenue or other operating expenses will be increased by the amortization of those assets.

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

In the six months ended June 30, 2006 and 2005, we recorded IPR&D of $5.2 million and $6.7 million, respectively. The amounts allocated to IPR&D in the six months ended June 30, 2006 and 2005 were determined through established valuation techniques used in the high technology industry and were expensed upon acquisition as it was determined that the underlying projects had not reached technological feasibility and no alternative future uses existed.

***Interest and Other Income, Net***

The following tables present interest and other income, net, for the three and six months ended June 30, 2006 and 2005:

| | Three Months Ended June 30, 2006 | | Three Months Ended June 30, 2005 | | | |
|---|---|---|---|---|---|---|
| | Amount | % of Net Revenue | Amount | % of Net Revenue | Increase | % Change |
| | (In thousands, except percentages) | | | | | |
| Interest income, net | $ 28,194 | 3.0% | $ 10,678 | 1.7% | $ 17,516 | 164.0% |
| Other income, net | 1,448 | 0.2 | 679 | 0.1 | 769 | 113.3 |

| | Six Months Ended June 30, 2006 | | Six Months Ended June 30, 2005 | | | |
|---|---|---|---|---|---|---|
| | Amount | % of Net Revenue | Amount | % of Net Revenue | Increase | % Change |
| | (In thousands, except percentages) | | | | | |
| Interest income, net | $ 51,932 | 2.8% | $ 18,636 | 1.5% | $ 33,296 | 178.7% |
| Other income, net | 3,219 | 0.2 | 777 | 0.1 | 2,442 | 314.3 |

Interest income, net, reflects interest earned on cash and cash equivalents and marketable securities balances. Other income, 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 increase in interest income, net, was the result of an overall increase in our cash and marketable securities balances and an increase in market interest rates. Our cash and marketable securities balances increased from $1.547 billion at June 30, 2005 to $2.377 billion at June 30, 2006. The weighted average interest rates earned for the three months ended June 30, 2006 and 2005 were 4.76% and 3.16%, respectively. The weighted average interest rates earned for the six months ended June 30, 2006 and 2005 were 4.58% and 2.93%, respectively.

***Provision for Income Taxes***

We recorded tax provisions of $4.7 million and $8.1 million for the three and six months ended June 30, 2006, respectively, and a tax benefit of $0.6 million and a tax provision of $2.4 million for the three and six months ended June 30, 2005, respectively. Our effective tax rates were 4.2% and 3.5% for the three and six months ended June 30, 2006, respectively, and (9.8%) and 4.0% for the three and six months ended June 30, 2005, respectively.

The difference between the our effective tax rates and the 35% federal statutory rate resulted primarily from domestic losses recorded without income tax benefit, foreign earnings taxed at rates lower than the federal statutory rate and certain foreign tax benefits recorded for the three and six months ended June 30, 2006 and June 30, 2005. During the three months ended June 30, 2005 our Singapore operations were granted certain additional tax incentives, which reduced our tax provision for the three months ended June 30, 2005 by approximately $4.6 million.

We utilize the 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, and the full utilization of its loss carryback opportunities, we have concluded that a full valuation allowance should be recorded in such jurisdictions. In certain other foreign jurisdictions where we do not have cumulative losses, we recorded net deferred tax assets of $1.3 million and $1.4 million at June 30, 2006 and December 31, 2005, respectively, in accordance with SFAS 109.

**Subsequent Event**

We recorded total charges of $10.9 million in the three months ended September 30, 2006 and expect to record $50.6 million in the three months ended December 31, 2006 in connection with payments we have decided to make to or on behalf of certain current and former employees related to consequences of the equity award review, as well as non-cash stock-based compensation expense we incurred related to the extension of the post-service stock option exercise period for certain former employees. The payments are to remunerate participants in the employee stock purchase plan who were unable to purchase shares thereunder during the period in which we were not current in our SEC reporting obligations, to remediate adverse tax consequences, if any, to individuals that may result from the equity award review, and to compensate individuals for the value of stock options that expired or would have expired during the period in which we were not current in our SEC reporting obligations.

**Liquidity and Capital Resources**

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

| | June 30, 2006 | December 31, 2005 | Increase |
|---|---|---|---|
| | | (In thousands) | |
| Working capital | $ 2,327,834 | $ 1,736,382(1) | $ 591,452 |
| Cash and cash equivalents(2) | $ 1,838,372 | $ 1,437,276 | $ 401,096 |
| Short-term marketable securities(2) | 366,894 | 295,402 | 71,492 |
| Long-term marketable securities | 171,961 | 142,843 | 29,118 |
| | $ 2,377,227 | $ 1,875,521 | $ 501,706 |

(1) Restated.

(2) Included in working capital.

Our working capital increased in the six months ended June 30, 2006 primarily related to cash provided by operations and cash proceeds received from issuances of common stock in connection with the exercise of employee stock options, offset in part by cash paid for the repurchase of shares of our Class A common stock, the acquisition of Sandburst Corporation, and the purchase of long-term marketable securities and property and equipment.

*Cash Provided and Used in the Six Months Ended June 30, 2006 and 2005.* Cash and cash equivalents increased to $1.838 billion at June 30, 2006 from $1.437 billion at December 31, 2005 as a result of cash provided by operating and financing activities, offset in part by cash used in investing activities.

In the six months ended June 30, 2006 our operating activities provided $377.0 million in cash. This was primarily the result of $223.8 million in net income and $275.7 million in net non-cash operating expenses offset in part by $122.5 million in net cash used by changes in operating assets and liabilities. Non-cash items included in net income in the six months ended June 30, 2006 included depreciation and amortization, stock-based compensation expense, amortization of purchased intangible assets and IPR&D. In the six months ended June 30, 2005 our operating activities provided $230.2 million in cash. This was primarily the result of $59.1 million in net income, $92.2 million in net non-cash operating expenses and $78.9 million in net cash provided by changes in operating assets and liabilities. Non-cash items included in net income in the six months ended June 30, 2005 included depreciation and amortization, stock-based compensation expense, amortization of purchased intangible assets and IPR&D.

Accounts receivable increased $100.9 million to $408.3 million in the six months ended June 30, 2006. The increase in accounts receivable was primarily the result of the $120.5 million increase in net revenue in the three months ended June 30, 2006 to $941.1 million, as compared with $820.6 million in the three months ended December 31, 2005. 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 continues to increase as it has in the most recent past, it is likely that our accounts receivable balance will also increase. Our accounts receivable could also increase if customers delay their payments or if we grant extended payment terms to customers.

Inventories increased $83.5 million to $278.0 million in the six months ended June 30, 2006, primarily in response to higher levels of purchase orders received from our customers and the buildup of buffer inventories based upon our forecast of future demand for certain key products. In the future, our inventory levels will continue to be determined based on the level of purchase orders received and the stage at which our products are in their respective product life cycles as well as competitive situations in the marketplace. Such considerations are balanced against the risk of obsolescence or potentially excess inventory levels.

Investing activities used $205.6 million in cash in the six months ended June 30, 2006, which was primarily the result of $67.9 million of net cash paid for the acquisition of Sandburst, the purchase of $37.2 million of capital equipment to support operations, and $100.6 million used in the net purchase of marketable securities. Investing activities used $154.0 million in cash in the six months ended June 30, 2005, which was primarily the result of $116.5 million used in the net purchase of marketable securities, $24.0 million of net cash paid for two acquisitions and the purchase of $13.4 million of capital equipment to support operations.

Our financing activities provided $229.7 million in cash in the six months ended June 30, 2006, which was primarily the result of $477.7 million in net proceeds received from issuances of common stock upon exercises of stock options and common stock purchases through our employee stock purchase plan, which was offset in part by $246.1 million in repurchases of our Class A common stock pursuant to our share repurchase program. Our financing activities provided $78.8 million in cash in the six months ended June 30, 2005, which was primarily the result of $99.4 million in net proceeds received from issuances of common stock upon exercises of stock options and common stock purchases through our employee stock purchase plan, which was offset in part by $18.2 million in repurchase of our class A common stock and a $2.5 million payment on debt assumed in connection with an acquisition.

Due to the increase in the price of our Class A common stock, a greater number of stock options were exercised by employees, and we received more proceeds from the exercise of stock options, in the six months ended June 30, 2006 than during the six months ended June 30, 2005. 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, which will reduce future growth in the number of stock options available for exercise. 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 have determined to allow employees to elect to have a portion of the shares issuable upon vesting of restricted stock units during 2006 withheld to satisfy withholding taxes and to make corresponding cash payments 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. 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. In addition, even though we may not need additional funds, we may still elect to sell additional equity or debt securities or obtain credit facilities for other reasons. We have filed a universal shelf registration statement on SEC Form S-3 that allows us to sell, in one or more public offerings, shares of our Class A common stock, shares of preferred stock or debt securities, or any combination of such securities, for proceeds in an aggregate amount of up to $750 million. We have not issued any securities under the universal shelf registration statement. Because one of the eligibility requirements for use of a Form S-3 is that an issuer must have timely filed all SEC reports required to be filed during the preceding twelve calendar months, we will not be able to issue shares under the Form S-3 until December 1, 2007. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or 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 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 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;
- 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;
- changes in our compensation policies;
- issuance of restricted stock units and the related payments in cash for withholding taxes due from employees during 2006 and possibly during future years;
- capital improvements for new and existing facilities;

- technological advances;
- our competitors' responses to our products;
- our relationships with suppliers and customers;
- the availability of sufficient foundry, assembly and test capacity and packaging materials;
- expenses related to our restructuring plans;
- 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.

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

We maintain an investment portfolio of various holdings, types and maturities. We do not use derivative financial instruments. We place our cash investments in instruments that meet high 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.

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of June 30, 2006 the carrying value of our cash and cash equivalents approximated fair value.

Marketable securities, consisting of U.S. Treasury and agency obligations, commercial paper, corporate notes and bonds, time deposits, foreign notes and certificates of deposits, are generally classified as held-to-maturity and are stated at cost, adjusted for amortization of premiums and discounts to maturity. In addition, in the past certain of our short term marketable securities were classified as available-for-sale and were stated at fair value, which was equal to cost due to the short term maturity of these securities. In the event that there were to be a difference between fair value and cost in any of our available-for-sale securities, unrealized gains and losses on these investments would be reported as a separate component of accumulated other comprehensive income (loss). 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. As of June 30, 2006 the carrying value and fair value of these securities were $538.9 million and $535.9 million, respectively. The fair value of our 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.

The carrying value, maturity and estimated fair value of our cash equivalents and marketable securities as of June 30, 2006 and December 31, 2005, respectively, were as follows:

| | Carrying Value June 30, 2006 | Maturity 2006 | 2007 | 2008 | 2009 | Fair Value June 30, 2006 |
|---|---|---|---|---|---|---|
| | (In thousands, except interest rates) | | | | | |
| **Investments** | | | | | | |
| Cash equivalents | $ 1,062,458 | $ 1,062,458 | $ — | $ — | $ — | $ 1,062,459 |
| Weighted average interest rate | 5.24% | 5.24% | — | — | — | |
| Marketable securities | $ 538,855 | $ 267,691 | $ 178,686 | $ 78,572 | $ 13,906 | $ 535,875 |
| Weighted average interest rate | 4.64% | 4.69% | 4.38% | 4.95% | 5.30% | |

| | Carrying Value December 31, 2005 | Maturity | | | Fair Value December 31, 2005 |
|---|---|---|---|---|---|
| | | 2006 | 2007 | 2008 | |
| | (In thousands, except interest rates) | | | | |
| **Investments** | | | | | |
| Cash equivalents | $ 835,598 | $ 835,598 | $ — | $ — | $ 835,202 |
| Weighted average interest rate | 4.38% | 4.38% | — | — | |
| Marketable securities | $ 438,245 | $ 295,402 | $ 103,985 | $ 38,858 | $ 435,702 |
| Weighted average interest rate | 3.77% | 3.62% | 3.94% | 4.45% | |

Our strategic equity investments are generally classified as available-for-sale and are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss) for publicly traded investments. We have also 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 the 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 June 30, 2006, the carrying and fair value of our strategic investments was $4.5 million.

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

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

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, our current management, under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e). Based on this evaluation, which included the findings of the voluntary review and the restatement described herein, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level at June 30, 2006 because of a material weakness in internal control over financial reporting. Since the material weakness was remediated as of the date of this filing, our principal executive officer and principal financial officer have determined that disclosure controls and procedures are effective at a reasonable assurance level as of the date of this filing.

We recently completed a voluntary review of our equity award practices. The review covered all grants of options and other equity awards made since our initial public offering in April 1998. During the course of the equity award review, we identified instances in which: (i) option grants failed to meet the measurement date criteria of APB 25; (ii) we did not notify some of the employee-recipients of their option grants for extended periods; (iii) grants made to some consultants were erroneously accounted for under APB 25 as if they had been made to employees; (iv) grants were made to employees upon acceptance of their employment offers at Broadcom rather than as of or after the actual commencement of employment; and (v) modifications made to employee stock options were not accounted for in accordance with APB 25. Details of the results of the equity award review and the restatement of our financial statements are discussed in the Explanatory Note and in Note 2 of Notes to

Consolidated Financial Statements in Part IV, Item 15 of the amended Annual Report on Form 10-K/A for the year ended December 31, 2005 filed with the SEC January 23, 2007.

The voluntary review found that in June 2003 we implemented revisions to our equity award processes and procedures. As a result, the processes were formalized and a consistent procedure was implemented for the Equity Award and Compensation Committees. In addition, the composition of the Equity Award Committee was changed to include an independent director. Our review of the equity award granting practices has determined that our process and practices in effect since June 2003 are sound and have been consistently adhered to. Management has not identified any instances of inappropriate measurement dates under APB 25 for option grants or other equity awards made since May 2003.

The restatement covers our financial statements for the years 1998 through 2005 and for the three months ended March 31, 2006. The adjustments to our financial statements for 2005 and for the three months ended March 31, 2006 were principally amortization of deferred compensation resulting from revisions made to measurement dates for certain options granted prior to June 2003.

In assessing the findings of the voluntary review and the restatement of our financial statements in the context of paragraph 139 of Public Company Accounting Oversight Board Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements* (“AS 2”), management has concluded that there was a material weakness as of December 31, 2005 under paragraph 139 with respect to our former chief financial officer’s role in the application of accounting principles to the equity award granting process prior to June 2003, including the impact on the 2005 financial statements of amortizing deferred compensation related to those equity awards.

Under paragraph 139 of AS 2, certain interactions of qualitative and quantitative considerations in the area of controls over the selection and application of accounting policies that are in conformity with generally accepted accounting principles result in at least a significant deficiency. The conduct review directed by the Audit Committee with the assistance of independent legal counsel Kaye Scholer LLP and with the forensic accounting assistance of LECG, LLC, found that our former Chief Financial Officer failed to provide proper advice concerning proper accounting standards or to establish proper procedures as they pertain to the option granting process prior to June 2003. As a result, management, consistent with paragraph 139 of AS 2, has determined that a material weakness existed as of December 31, 2005 with respect to our former Chief Financial Officer’s role in the application of accounting principles to the equity award granting process prior to June 2003, including the impact on the 2005 financial statements of amortizing deferred compensation related to those equity awards.

This material weakness was initially identified in conjunction with the voluntary review and was remediated upon the retirement of our former chief financial officer on September 19, 2006.

Management’s assessment of internal control over financial reporting with respect to 2005 included a review of the overall control environment. This included controls that mitigate the risk of management override, including: (i) the participation of independent directors on the Audit, Compensation, Equity Award, and Nominating & Corporate Governance Committees, with minutes recorded and maintained by the Legal Department; (ii) inclusion of multiple personnel in reviews of reserves and disclosures; (iii) no direct financial system add/update capabilities for executive management; (iv) employee and third party complaint procedures (including the ability for employees to make anonymous complaints); (v) a Code of Ethics and Corporate Conduct; (vi) an Internal Audit function; (vii) a Corporate Compliance Officer; (viii) general Finance employee surveys that include questions regarding ethics; and (ix) processes that include checks and balances on management. The Audit, Compensation, and Nominating & Corporate Governance Committees are composed entirely of independent directors. The Equity Award Committee includes an independent director. Broadcom’s Code of Ethics and Corporate Conduct provides general guidance with respect to the accuracy of financial reports as well as compliance and complaint procedures. As of the date of this filing, these controls continue to be in effect.

In addition, Broadcom's controls over the equity award process as of December 31, 2005 included the following controls to prevent and/or detect, at a reasonable assurance level, any future instances of improper accounting for equity awards:

- Awards to newly hired employees are compiled by our Human Resources Department and are submitted to the relevant committee for approval only on or after the commencement of employment. As a practice, equity awards are not made to consultants. All awards are communicated to the Shareholder Services Department by the Human Resources Department (or, in the case of patent incentive awards, by the Legal Department) for approval by the Equity Award or Compensation Committee (each of which typically meets on a regular basis). The lists of equity awards approved by the relevant committee include specific allocation of awards to individuals. Awards are entered into our equity award administration system promptly after they are approved by the relevant committee (a grant to a consultant would be detected by our Shareholder Services Department at this point).
- A member of the Legal Department attends Compensation and Equity Award Committee meetings, records minutes, and confirms that awards comply with equity plans.
- The exercise price for each option grant is equal to or greater than the closing price of our Class A common stock on the date of approval. We would record deferred compensation if for any reason the exercise price of any option grant were lower than the closing price of our Class A common stock on the date of approval.
- Formal resolutions approving equity awards are reconciled to the data maintained in the equity award administration system on a monthly basis. The Human Resources Department validates new awards reflected in the equity award administration system.
- Timely notification of equity awards is sent (electronically or by mail) to employee recipients. The equity awards are uploaded from the equity award administration system to an online brokerage website, at which time grants are available for viewing by employees. Additionally, for members of the Board of Directors and Section 16 Officers, a Form 4 is filed with the SEC within two business days after the grant date.
- The Human Resources system and the equity award administration system are periodically reconciled to reflect the cancellation of awards held by employees whose employment with Broadcom has terminated.
- Any proposed modifications to equity awards (e.g., accelerations and exercise extensions) are communicated by the Human Resources Department to, and regular inquiry is made of the Human Resources Department by, the Shareholder Services Department. Changes are approved by the appropriate Board committee.
- The issuance of shares upon exercise or release of equity awards recorded in our equity award administration system is periodically reconciled to the records of our transfer agent.

As of the date of this filing, these controls continue to be in effect. Currently, the Compensation Committee and Equity Award Committee each holds monthly equity award meetings based upon a predetermined schedule.

There has been no change in our internal control over financial reporting during the three months ended June 30, 2006 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 fraud, 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 error or fraud may occur and not be detected.

## PART II. OTHER INFORMATION

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

The information set forth under Note 8 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of this Report, is incorporated herein by reference.

**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 amended and subsequent reports on Forms 10-K/A, 10-K, 10-Q/A, 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Broadcom, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price for our Class A common stock will likely decline, and you may lose all or part of your investment.*

**Our operating results for 2006 and prior periods have been materially and adversely impacted by the results of the voluntary review of our past equity award practices. 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 civil litigation relating to our past equity award practices or the January 2007 restatement of our financial statements could result in significant costs and the diversion of attention of our management and other key employees.**

In connection with our previously announced equity award review, we restated our financial statements for each of the years ended December 31, 1998 through December 31, 2005, and have restated our financial statements for the first quarter of 2006 as well. 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, and the related opinions of our independent registered public accounting firm, and all earnings press releases and similar communications issued by us, for all periods ended on or before March 31, 2006, which have been superseded in their entirety by the information contained in the amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and the amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006.

Based on the results of the equity award review, the Audit Committee concluded that, pursuant to APB 25 and related interpretations, the accounting measurement dates for most of the stock option grants awarded between June 1998 and May 2003, covering options to purchase 232.9 million shares of our Class A or Class B common stock, differed from the measurement dates previously used for such awards. As a result, revised measurement dates were applied to the affected option grants and Broadcom recorded a total of $2.259 billion in additional stock-based compensation expense for the years 1998 through 2005. After related tax adjustments of $38.7 million, the restatement resulted in total net adjustments of $2.220 billion for the years 1998 through 2005. This amount is net of forfeitures related to employee terminations. The additional stock-based compensation expense is being amortized over the service period relating to each option, typically four years, with approximately 95% of the total expense being recorded in years prior to 2004. Additional stock-based compensation expense will be recorded in the first quarter of 2006 and thereafter pursuant to the provisions of SFAS 123R.

These expenses had the effect of decreasing income from operations, net income, and net income per share (basic and diluted) in affected periods in which we reported a profit, and increasing loss from operations, net loss, and net loss per share in affected periods in which we reported a loss. Information regarding the effect of the restatement on our financial statements for various periods is provided in Note 2 of Notes to Consolidated

Financial Statements, included in Part IV, Item 15 of our amended Annual Report on Form 10-K/A for the year ended December 31, 2005 and Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1 of our amended Quarterly Report on Form 10-Q/A for the three months ended March 31, 2006.

In June 2006 we received an informal request for information from the staff of the Los Angeles regional office of the Securities and Exchange Commission regarding our option granting practices. In December 2006 we were informed that the SEC issued a formal order of investigation in the matter. We are cooperating with the SEC investigation, but do not know when or how it will be resolved or what, if any, actions the SEC may require us to take as part of the resolution of that matter.

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. We are cooperating with this request. Any action by the SEC, the U.S. Attorney's Office or other 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.

Additionally, as discussed in Note 8 of Notes to Unaudited Condensed 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 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 entered into indemnification agreements with each of our present and former directors and officers. Under those agreements, Broadcom is required to indemnify each such director or officer against expenses, including attorneys' fees, judgments, fines and settlements, paid by such individual in connection with the pending litigation (other than indemnified liabilities arising from willful misconduct or conduct that is knowingly fraudulent or deliberately dishonest).

The resolution of the pending investigations by the SEC and U.S. Attorney's Office, the defense of our pending civil litigation and any additional litigation relating to our past equity award practices or the January 2007 restatement of our financial statements could result in significant costs and diversion of the attention of management and other key employees.

**The implementation of new accounting rules related to the expensing of stock-based awards will negatively impact our operating results in periods beginning with the first quarter of 2006. Any subsequent changes in accounting rules may also have an adverse effect on our results of operations.**

We adopted SFAS 123R effective January 1, 2006. SFAS 123R requires all share-based payment awards to employees, including grants of stock options, restricted stock units and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values and does not allow the previously permitted pro forma disclosure-only method as an alternative to financial statement recognition.

The adoption of SFAS 123R will have a significant adverse impact on our reported results of operations because the stock-based compensation expense is charged directly against our reported earnings. Stock-based compensation expense and unearned stock-based compensation will increase to the extent that we increase our work force, grant additional equity awards to employees or assume unvested equity awards in connection with acquisitions.

Any other subsequent changes in the accounting rules applicable to Broadcom may also have an adverse effect on our results of operations.

**We had a material weakness in internal control over financial reporting 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 review as well as the restatement, our management concluded that there was a material weakness, as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 2, in our internal control over financial reporting as of December 31, 2005. Management believes this material weakness was remediated as of September 19, 2006 and, accordingly, no longer exists as of the date of this filing. See the discussion included in Part I, Item 4 of this Report for additional information regarding our internal control over financial reporting.

Our management, including our Chief Executive Officer and Acting 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. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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

**Our 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 cyclicality of, and changing economic, political and market conditions in, the semiconductor industry and wired and wireless communications markets, including seasonality in sales of consumer products into which our products are incorporated;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;
- the gain or loss of a key customer, design win or order;

- intellectual property disputes, customer indemnification claims and other types of litigation risks;
- changes in accounting rules, such as the change requiring the recording of expenses for employee stock options and other stock-based compensation expense commencing with the first quarter of 2006;
- our ability to timely and effectively transition to smaller geometry process technologies or achieve higher levels of design integration;
- our dependence on a few significant customers for a substantial portion of our revenue;
- 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 ability to retain, recruit and hire key executives, technical personnel and other employees in the positions and numbers, with the experience and capabilities, and at the compensation levels that we need to implement our business and product plans;
- our ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a cost-effective and timely manner;
- the rate at which our present and future customers and end users adopt our technologies and products in our target markets;
- the availability and pricing of third party semiconductor foundry, assembly and test capacity and raw materials;
- our ability to timely and accurately predict market requirements and evolving industry standards and to identify and capitalize upon opportunities in new markets;
- 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;
- changes in our product or customer mix;
- 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, and the sustainability of, such newer markets.

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.

**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 last four years, 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 a slowdown in orders in the third quarter of 2006 as well as a reduction in net revenue in the fourth quarter of 2004 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 recovery, worldwide, or in the wired and wireless communications markets. If the economy or the wired and wireless communications 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.

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

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Customers can generally cancel 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 more 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 six months to test, evaluate and adopt our product and an additional three to more than nine months to begin volume production of equipment that incorporates our product. 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 market and sell its equipment or that such efforts by our customer will be successful. The delays inherent in our lengthy sales cycle increase the risk that a customer will decide to cancel or curtail, reduce or delay its product plans. If we incur significant 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, we could incur significant charges against our income. We have also recently entered into consigned or customer managed inventory arrangements with certain of our customers, although we have not shipped a significant amount of product under those arrangements as of December 31, 2006. Pursuant to these arrangements we deliver products to a warehouse of the customer or a designated third party 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. If a customer does not take product under such an 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.

**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 often aggressively protect and pursue their intellectual property rights. There are often 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 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 against us are not valid or successfully asserted, these claims could result in significant costs and a diversion of the attention of management and other key employees to defend. Additionally, we have sought and may in the future seek to obtain a license under a third party's intellectual property rights and have granted and may in the future grant a license to certain of our intellectual property rights to a third party in connection with a cross-license agreement or a settlement of claims or actions asserted against us. However, we may not be able to obtain such a license on commercially reasonable terms.

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

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

Our success and future revenue growth will depend, in part, on our ability to protect our intellectual property. We primarily rely on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. Despite our efforts to protect our proprietary technologies and processes, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies and processes. We currently hold more than 1,900 U.S. patents and more than 750 foreign patents and have filed approximately 5,900 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 have foreign patents or 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 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 to us 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 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. 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. 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.

**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 .25 micron, .22 micron, .18 micron, .13 micron and 90 nanometer geometry processes. In addition, we are now designing a number of new products in 65-nanometer process technology. 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. In addition, 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 a short-term adverse impact on our operating results, as we may reduce our revenue by integrating the functionality of multiple chips into a single chip.

**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, including sales to their manufacturing subcontractors, represented 45.9% and 50.5% of our net revenue in the six months ended June 30, 2006 and 2005, respectively. We expect that our largest customers will continue to account for a substantial portion of our net revenue during the balance of 2006 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 our resources to our strategic relationships, which could detract from or delay our completion of other important development projects. Delays in development could impair our relationships with 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.

**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. We have experienced a period of rapid growth and expansion in the past. Through internal growth and acquisitions, we significantly increased the scope of our operations and expanded our workforce from 2,580 employees, including contractors, as of December 31, 2002 to 4,854 employees, including contractors, as of June 30, 2006. 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, the rate of increase in our operating expenses may exceed the rate of increase, if any, in our revenue. Moreover, if we experience another slowdown in the broadband 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 that 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, or ERP, system to help us improve our planning and management processes and a new human resources management, or HRM, system. More recently we have implemented a new equity administration system to support our more complex equity programs as well as the adoption of SFAS 123R. We anticipate that we will also need to continue to implement a variety of new and upgraded operational and financial systems, 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 December 2004 we signed a $183.0 million lease agreement under which we will relocate our headquarters and Irvine operations to new, larger facilities that will enable us to centralize all of our Irvine employees and operations on one campus. This relocation is currently anticipated to occur in the first quarter of 2007. 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 our 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.

**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 an employment agreement with Mr. McGregor; however it does not govern the length of his 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 any of these individuals were to leave our company unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity during the search for and while any such successor is integrated into our business and operations.

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

Equity awards generally comprise a significant portion of our compensation packages for all employees. At the present time, pending the filing of our amended and delayed SEC periodic reports, we are not able to issue shares of our common stock pursuant to equity awards. In 2003 we conducted a stock option exchange offer to address the substantial decline in the price of our Class A common stock over the preceding two years and to improve our ability to retain key employees. However, 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 if our Class A common stock experiences another substantial price decline.

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 stock options awarded to employees will increase 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.

**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 solutions for existing and new markets, introduce these products in a cost-effective and timely manner, and convince leading equipment manufacturers to select these products for design into their own new products. Our 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 and 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.

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;
- 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.

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

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 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 we anticipate, or if our products do not gain widespread acceptance in these markets, our business, financial condition and results of operations could be materially and adversely affected.

**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 defects and 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 our customers. To alleviate these problems, we may have to invest significant capital and other resources. Although our products are tested by us and our suppliers and customers, it is possible that our new products will contain defects or bugs. If any of these problems are not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or 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. 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. Moreover, we would likely lose, or experience a

delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers.

**Our acquisition strategy may be dilutive to existing shareholders, 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.**

A key element of our business strategy involves expansion through the acquisitions of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. Between January 1, 1999 and June 30, 2006, we acquired 33 companies and certain assets of one other business. 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, deferred compensation charges, and the recording and later amortization of amounts related to deferred compensation and 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.

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 prior 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, 29.4% and 29.6% of our net revenue in the three and six months ended June 30, 2006, respectively, was derived from sales to independent customers outside the United States,

excluding foreign subsidiaries or manufacturing subcontractors of customers that are headquartered in the United States. We also frequently ship products to our domestic customers' international manufacturing divisions and subcontractors. Products shipped to international destinations, primarily in Asia, represented 87.3% and 87.4% of our net revenue in the three and six months ended June 30, 2006, respectively. We also undertake design and development activities in Belgium, Canada, China, Denmark, France, Greece, India, Israel, Japan, Korea, the Netherlands, 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;
- 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;
- unexpected changes in regulatory requirements;
- 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.

The 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.

**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 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 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, including:

- a lack of guaranteed wafer supply and potential wafer shortages and higher wafer prices;

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

In addition, the manufacture of integrated circuits is a highly complex and technologically demanding process. Although we work closely with our foundries to minimize the likelihood of reduced manufacturing yields, our foundries have from time to time experienced lower than anticipated manufacturing yields. This often occurs during the production of new products or the installation and start-up of new process technologies. 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 recent 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, 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 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 operating results.

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

**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. Seven 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.

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, 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;
- changes in accounting rules, particularly those related to the expensing of stock options;
- newly-instituted litigation or an adverse decision or outcome in litigation;
- announcements of changes in our senior management;
- the gain or loss of one or more significant customers or suppliers;
- announcements of technological innovations or new products by our competitors, customers or us;
- the gain or loss of market share in any of our markets;
- 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;
- continuing international conflicts and acts of terrorism;
- changes in earnings estimates or investment recommendations by analysts;
- 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 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.

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

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

Our California facilities, including our principal executive offices and major design centers, are located near major earthquake fault lines. Our international distribution center is 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 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 the imposition of new laws and regulations in the United States or elsewhere could materially and adversely affect our business.

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 (“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, absent any unforeseen delays, our current product designs and material supply chains will allow production to continue in compliance with the RoHS Directive and without interruption. However, it is possible that unanticipated supply shortages or delays may occur as a result of these new regulations.

**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 June 30, 2006 our co-founders, directors, executive officers and their respective affiliates beneficially owned 14.3% of our outstanding common stock and held 60.3% of the total voting power held by our shareholders. Accordingly, these shareholders currently have enough voting power to control the outcome of matters that require the approval of our shareholders. These matters include the election of our Board of Directors, the issuance of additional shares of Class B common stock, and the approval of most significant corporate transactions, including certain mergers and consolidations and the sale of substantially all of our assets. In particular, as of June 30, 2006 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 13.4% of our outstanding common stock and held 59.4% 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.

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

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

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

In the three months ended June 30, 2006, we issued an aggregate of 1.9 million shares of our Class A common stock upon conversion of a like number of shares of our Class B common stock. Each share of our Class B common stock is convertible at the option of the holder into one share of Class A common stock, and in most instances will automatically convert into one share of Class A common stock upon sale or other transfer. The offer and sale of the securities were effected without registration in reliance on the exemption from registration proved by Section 3(a)(9) of the Securities Act.

**Issuer Purchases of Equity Securities**

In February 2005 our Board of Directors authorized a program to repurchase shares of our Class A common stock. The Board approved the repurchase of shares having an aggregate value of up to $250 million from time to time over a period of one year, depending on market conditions. In January 2006 the Board approved an amendment to the share repurchase program extending the program through January 27, 2007 and authorizing the repurchase of additional shares of our Class A common stock having a total market value of up to $500 million

from time to time during the period beginning January 26, 2006 and ending January 26, 2007. The following table details the repurchases that were made under the program during the three months ended June 30, 2006:

| Period | Total Number of Shares Purchased (In thousands) | Average Price per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (In thousands) | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (In thousands) |
|---|---|---|---|---|
| April 1, 2006 — April 30, 2006 | 939 | $ 43.85 | 939 | |
| May 1, 2006 — May 31, 2006 | 1,484 | $ 37.17 | 1,484 | |
| June 1, 2006 — June 30, 2006 | 1,790 | $ 31.27 | 1,790 | |
| | 4,213 | $ 36.15 | 4,213 | $ 256,155 |

From the time the program was first implemented through June 30, 2006, we repurchased 11.8 million shares of our Class A common stock at a weighted average price of $33.94 per share.

On July 24, 2006 we decided to suspend purchasing shares of Class A common stock under the share repurchase program.

**Item 3.** ***Defaults upon Senior Securities***

None.

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

(a) Our 2006 Annual Meeting of Shareholders (the “2006 Annual Meeting”) was held April 27, 2006.

(b) At the 2006 Annual Meeting, the shareholders elected each of the following nominees as directors, to serve on our Board of Directors until the next annual meeting of shareholders and/or until their successors are duly elected and qualified. The vote for each director was as follows:

| | Class A Shares/ Votes | Class B Shares | Class B Votes | Total Votes |
|---|---|---|---|---|
| George L. Farinsky | 358,035,138 | 75,730,323 | 757,303,230 | 1,115,338,368 |
| Maureen E. Grzelakowski | 372,738,415 | 75,730,323 | 757,303,230 | 1,130,041,645 |
| Nancy H. Handel | 372,755,056 | 75,730,323 | 757,303,230 | 1,130,058,286 |
| John Major | 338,958,511 | 75,730,323 | 757,303,230 | 1,096,261,741 |
| Scott A. McGregor | 362,621,985 | 75,730,013 | 757,300,130 | 1,119,922,115 |
| Alan E. Ross | 362,190,396 | 75,730,323 | 757,303,230 | 1,119,493,626 |
| Henry Samueli, Ph.D. | 362,220,963 | 75,730,323 | 757,303,230 | 1,119,524,193 |
| Robert E. Switz | 358,064,109 | 75,730,323 | 757,303,230 | 1,115,367,339 |
| Werner F. Wolfen | 330,490,184 | 75,730,323 | 757,303,230 | 1,087,793,414 |

(c) At the 2006 Annual Meeting, the Shareholders also voted on the following four proposals and cast their votes as follows:

(1) To approve Second Amended and Restated Articles of Incorporation of Broadcom to (i) increase the aggregate number of authorized shares of Class A common stock from 800,000,000 shares to 2,500,000,000 shares, and (ii) eliminate all statements referring to the rights, preferences, privileges and restrictions of Series A preferred stock, Series B preferred stock, Series C preferred stock, Series D preferred stock and Series E preferred stock.

| | Class A Shares/ Votes | Class B Shares | Class B Votes | Total Votes |
|---|---|---|---|---|
| For | 309,597,589 | 75,726,951 | 757,269,510 | 1,066,867,099 |
| Against | 74,167,179 | 5,284 | 52,840 | 74,220,019 |
| Abstain | 2,615,183 | — | — | 2,615,183 |
| Broker Non-Votes | N/A | N/A | N/A | N/A |

(2) To approve an amendment to our Bylaws, as previously amended and restated, to increase the authorized number of directors from a range of five (5) to nine (9) to a range of six (6) to eleven (11) directors.

| | Class A Shares/ Votes | Class B Shares | Class B Votes | Total Votes |
|---|---|---|---|---|
| For | 372,744,511 | 75,730,323 | 757,303,230 | 1,130,047,741 |
| Against | 12,039,504 | 1,912 | 19,120 | 12,058,624 |
| Abstain | 2,408,737 | — | — | 2,408,737 |
| Broker Non-Votes | N/A | N/A | N/A | N/A |

(3) To approve an amendment and restatement of Broadcom's 1998 Stock Incentive Plan, as previously amended and restated, which revises the automatic equity grant program in effect for new and continuing non-employee Board members and makes certain technical revisions and improvements.

| | Class A Shares/ Votes | Class B Shares | Class B Votes | Total Votes |
|---|---|---|---|---|
| For | 47,712,419 | 75,670,025 | 756,700,250 | 804,412,669 |
| Against | 284,845,298 | 53,726 | 537,260 | 285,382,558 |
| Abstain | 2,428,490 | 1,912 | 19,120 | 2,447,610 |
| Broker Non-Votes | 52,206,547 | 6,572 | 65,720 | 52,272,267 |

(4) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2006.

| | Class A Shares/ Votes | Class B Shares | Class B Votes | Total Votes |
|---|---|---|---|---|
| For | 384,497,719 | 75,730,323 | 757,303,230 | 1,141,800,949 |
| Against | 330,992 | — | — | 330,992 |
| Abstain | 2,364,041 | 1,912 | 19,120 | 2,383,161 |
| Broker Non-Votes | N/A | N/A | N/A | N/A |

**Item 5.** ***Other Information***

***Committee Composition***

In April 2006 and August 2006 our Board of Directors reconstituted its committees. The current members of each committee and the respective committee chairs are identified in the following table:

| C = Chair<br>M = Member | Audit | Compen-<br>sation | Equity<br>Award | Nominating &<br>Corporate<br>Governance |
|---|---|---|---|---|
| **Independent Directors** | | | | |
| George L. Farinsky | C | | | |
| Maureen E. Grzelakowski | | M | | M |
| Nancy H. Handel | M | | | |
| John Major | M | C | M | M |
| Robert E. Switz | M | | | C |
| Werner F. Wolfen(1) | M | M | | |
| **Employee Directors** | | | | |
| Scott A. McGregor | | | C | |
| Henry Samueli, Ph.D. | | | M | |

(1) Mr. Wolfen also continues to serve as Lead Independent Director.

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

***Stock Ownership Policy***

On August 2, 2006 our Board of Directors amended and restated its *Policy on Stock Ownership by Members of the Board of Directors and Section 16 Officers*. Under the amended and restated Policy, each Section 16 Officer as of October 31, 2005 and each director who was serving on the Board as of October 31, 2005 will be required to own at least the following number of shares of Broadcom common stock as of each respective date indicated below and to hold the respective indicated number of shares continuously after that date:

| | |
|---|---|
| December 31, 2005 | 1,000 shares |
| December 31, 2006 | 2,000 shares |
| December 31, 2007 | 3,000 shares |
| December 31, 2008 | 4,000 shares |
| December 31, 2009 | 5,000 shares |

A director or Section 16 Officer first elected to such capacity after October 31, 2005 will be expected to own 1,000 shares of Broadcom common stock by the first anniversary of the date he/she commences service in that capacity, increasing to 2,000 shares by the second anniversary of that date, and thereafter increasing in annual increments of 1,000 shares as of each ensuing anniversary, to a total of 5,000 shares after five years of service in that capacity, and to hold the respective indicated number of shares continuously after each such date.

**Item 6.** ***Exhibits***

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

| Exhibit Number | Description | Where Located | | | | Filed Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Exhibit No. | Filing Date | |
| 3.1 | Second Amended and Restated Articles of Incorporation filed on June 8, 2006. | 8-K | 000-23993 | 3.1 | 08/10/2006 | |
| 3.2 | Bylaws as Amended through April 27, 2006. | 8-K | 000-23993 | 3.2 | 08/10/2006 | |
| 10.1 | 2006 Performance Bonus Plan. | | | | | X |
| 10.2 | Separation Agreement and Release of All Claims between the registrant and Andrew J. Pease effective as of June 1, 2006. | | | | | X |
| 10.3 | 1998 Stock Incentive Plan (as amended and restated February 24, 2006). | 8-K | 000-23993 | 10.3 | 08/10/2006 | |
| 31 | Certifications of the Chief Executive Officer and Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 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. | | | | | X |

**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/ BRUCE E. KIDDOO

Bruce E. Kiddoo
*Vice President, Corporate Controller and Acting Chief Financial Officer*
*(Principal Financial and Accounting Officer)*

January 23, 2007

**EXHIBIT INDEX**

| Exhibit Number | Description | Where Located | | | | Filed Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Exhibit No. | Filing Date | |
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EXHIBIT 10.1

# BROADCOM CORPORATION

## 2006 PERFORMANCE BONUS PLAN

### I. PURPOSES OF THE PLAN

A. The Broadcom Corporation 2006 Performance Bonus Plan (the "Plan") is intended to promote the interests of Broadcom Corporation (the "Company") and its shareholders by establishing a compensation program to provide executives and other key employees with incentive awards tied to the achievement of goals relating to the performance of the Company and/or the achievement of individual performance goals.

B. The Plan shall be in effect for the Company's fiscal year ending December 31, 2006 (the "Plan Year"), and bonuses may be earned under the Plan on the basis of the Company's financial performance for such Plan Year.

### II. PLAN ADMINISTRATION

A. The Plan shall be administered by the Compensation Committee of the Company's Board of Directors. The Compensation Committee in its capacity as administrator of the Plan (the "Plan Administrator") shall have full power and authority (subject to the express provisions of the Plan) to:

(i) establish the performance objectives to be attained for the Plan Year in order for participants to become entitled to bonus payments under the Plan; and

(ii) determine the actual bonus (if any) to be paid to each participant based on actual performance relative to the established objectives for the Plan Year.

B. The Plan Administrator shall also have full power and authority to interpret and construe the provisions of the Plan, to adopt rules and regulations for the administration of the Plan and to determine an individual's eligibility for participation in the Plan and the amount of the actual bonus (if any) to be paid to him or her.

C. Decisions of the Plan Administrator shall be final and binding upon all parties who may have an interest in the Plan or any bonus amount payable under the Plan.

### III. PARTICIPATION

A. The individuals who shall participate in the Plan for the Plan Year shall be limited to (i) the executive officers of the Company, (ii) all other employees of the Company (or its subsidiaries) at the level of Director or above and (iii) any other employees of the Company (or its subsidiaries) identified by the Company's Chief Executive Officer as key contributors to the Company's growth and financial success and selected for participation in the Plan by the Plan Administrator.

B. A participant shall cease to participate in the Plan and shall not be entitled to any bonus payment under the Plan if that participant ceases Employee status for any reason prior to the date that bonuses are paid under the Plan (the "Distribution Date"); provided, however, that:

(i) a participant who ceases Employee status prior to the Distribution Date by reason of death or Disability may be entitled to receive a pro-rated bonus based upon the number of days which such individual remained in active Employee status during the Plan Period (as defined below); and

(ii) the Plan Administrator shall have complete discretion to make individual bonus awards under Article V of the Plan to one or more participants who terminate Employee status for any other reason prior to the Distribution Date, when the Plan Administrator deems the special circumstances of the participant's termination warrant a bonus award under the Plan.

C. For purposes of the Plan:

(i) A participant shall be deemed to have ceased Employee status by reason of a DISABILITY if such cessation of Employee status is occasioned by his or her inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which is expected to result in death or has lasted or can be expected to last for a continuous period of twelve (12) months or longer.

(ii) A participant shall be deemed to continue in EMPLOYEE status for so long as that individual remains in the employ of the Company or any subsidiary of the Company;

(iii) The PLAN PERIOD shall mean the period beginning with the first day of the Plan Year and ending with the Distribution Date.

(iv) Each corporation (other than the Company) in an unbroken chain of corporations beginning with the Company shall be considered to be a SUBSIDIARY of the Company, provided that each such corporation (other than the last corporation in the unbroken chain) owns, at the time of determination, stock possessing more than fifty percent (50%) of the total combined voting power of all classes of stock in one of the other corporations in such chain.

D. A participant who is absent from active Employee status for a portion of the Plan Period by reason of an authorized leave of absence shall not be deemed to have ceased Employee status during the period of that leave. However, such participant's bonus may be pro-rated based on the portion of the Plan Period during which that individual is in active working status and not on such leave of absence, unless the Plan Administrator otherwise deems it appropriate under the circumstances to provide that individual with a full bonus for the Plan Period.

IV. BONUS POOL

A. The Plan Administrator shall take each of the following actions during the Plan Year:

(i) The Plan Administrator shall establish the specific performance objectives that must be attained for the Plan Year for a bonus pool to be created under the Plan for that year. The performance objectives shall be based on the following financial measures: (a) net revenue, (b) non-GAAP gross margin, (c) non-GAAP operating margin, (d) non-GAAP earnings per share, (e) change in the price per share of the Common Stock relative to the stock prices of an identified peer group and (f) non-GAAP free cash flow.

(ii) The Plan Administrator shall determine the bonus pool for the Plan Year. The target bonus pool for the Plan Year shall be fourteen million dollars ($14,000,000). The maximum bonus pool payable under the Plan in the event the Company exceeds each of the established performance objectives shall be limited to twenty-one million dollars ($21,000,000). The actual dollar amount of the bonus pool to be awarded for the Plan Year shall be determined on the basis of the Company's actual performance relative to each of the performance objectives established for the Plan Year. Accordingly, each performance objective shall be measured separately in terms of actual percentage attainment and shall be weighted equally in determining the actual size of the bonus pool. For example, for the six (6) performance objectives, each objective at one hundred percent (100%) attainment will account for sixteen and two-thirds percent (16 2/3%) of the total target bonus pool or two million three hundred thirty-three thousand three hundred thirty-three dollars and thirty-three cents ($2,333,333.33). No bonus pool will be established with respect any performance objective, unless the Company attains at least a specified percentage of that objective, with such specification to be made by the Plan Administrator at the time each performance objective is established.

B. In determining whether the established performance objectives based on non-GAAP gross margin, non-GAAP operating margin, non-GAAP earnings per share and/or non-GAAP free cash flow are attained, the Plan Administrator shall apply the dollar amounts which the Company reports for those items in accordance with U.S. generally accepted accounting principles ("GAPP"), as adjusted for non-cash, non-recurring, extraordinary and certain other items. The dollar amount of the actual bonus pool shall be determined by the Plan Administrator as soon as administratively practicable following the completion of the audit of the Company's 2006 financial statements by the Company's independent registered public accounting firm.

V. INDIVIDUAL BONUS AWARDS

A. The actual bonus award to be made to (i) each participant who is an executive officer of the Company shall be determined at the sole discretion of the Plan Administrator and (ii) each participant who is not an executive officer of the Company shall be approved by the Plan Administrator, based upon the recommendation of the Company's management.

B. Except as otherwise provided in this Paragraph V.B, no participant shall accrue any right to receive a bonus award under the Plan unless and until that participant remains in Employee status through the Distribution Date. Accordingly, no bonus payment shall be made to any participant who ceases Employee status prior to the Distribution Date, provided, however,

that (i) one or more participants may be entitled to a pro-rata bonus should their Employee status terminate under circumstances which entitle them to such a pro-rata bonus pursuant to the express terms of any other agreement or arrangement to which they and the Company are parties and (ii) the provisions of Paragraph III.B shall govern the bonus entitlement of participants whose Employee status terminates by reason of death, Disability or under other special circumstances identified by the Plan Administrator.

C. The Distribution Date for the individual bonus amount for each participant shall be as soon as administratively practicable following the completion of the audit of the Company's 2006 financial statements by the Company's independent registered public accounting firm, but in no event shall such Distribution Date be later than March 31, 2007. The payment of each bonus shall be subject to the Company's collection of all applicable federal, state and local income and employment withholding taxes, as and when those taxes become due and payable.

VI. GENERAL PROVISIONS

A. The Plan and all rights hereunder shall be construed, administered and governed in all respects in accordance with the laws of the State of California without resort to its conflict-of-laws provisions. If any provision of the Plan shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions of the Plan shall continue in full force and effect.

B. The Plan Administrator may at any time amend, suspend or terminate the Plan, provided such action does not adversely affect the rights and interests of participants accrued to date under the Plan or otherwise impair their ability to earn a bonus award based upon the performance objectives established by the Plan Administrator for the Plan Year.

C. Neither the action of the Company in establishing or maintaining the Plan, nor any action taken under the Plan by the Plan Administrator, nor any provision of the Plan itself shall be construed so as to grant any person the right to remain in Employee status for any period of specific duration, and each participant shall at all times remain an Employee at will and may accordingly be discharged at any time, with or without cause and with or without advance notice of such discharge.

D. Should a participant die before payment is made of the actual bonus to which he or she has become entitled under the Plan, then that bonus shall be paid to the executor or other legal representative of his or her estate.

E. No participant shall have the right to transfer, alienate, pledge or encumber his or her interest in the Plan, and such interest shall not (to the maximum permitted by law) be subject to the claims of the participant's creditors or to attachment, execution or other process of law.

F. The terms and conditions of the Plan, together with the obligations and liabilities of the Company which accrue hereunder, shall be binding upon any successor to the Company, whether by way of merger, consolidation, reorganization or other change in ownership or control of the Company.

G. No amounts accrued or earned under the Plan shall actually be funded, set aside or to otherwise segregated prior to actual payment. The obligation to pay the bonuses which actually become due and payable under the Plan shall at all times be an unfunded and unsecured obligation of the Company. Participants shall have the status of general creditors and shall look solely and exclusively to the general assets of the Company for payment.

H. Any disputes between the Company and a participant arising out of or relating to the Plan, his or her entitlement to any bonus award hereunder or the amount or method of payment of such award shall be settled exclusively by binding arbitration to be held in the county in which the participant is (or has most recently been) employed by the Company (or any subsidiary) at the time of such arbitration. The arbitration proceedings shall be governed by (i) the national rules of the American Arbitration Association then in effect for the resolution of employment disputes and (ii) the Federal Arbitration Act. The decision of the arbitrator shall be final and binding on the parties to the arbitration and shall be in lieu of the rights those parties may otherwise have to a jury trial.

I. The actual performance objectives for the Plan Year, as established by the Plan Administrator in accordance with the terms of the Plan, shall be set forth in attached Schedule I.

EXHIBIT 10.2

SEPARATION AGREEMENT AND RELEASE OF ALL CLAIMS

This Separation Agreement and Release of All Claims (the "AGREEMENT") is made by and between Andrew J. Pease ("Executive") and Broadcom Corporation, a California corporation (the "Company"), effective as of June 1, 2006.

RECITALS

A. Executive is the Company's Senior Vice President, Global Sales.

B. Executive and the Company mutually desire to end Executive's employment by the Company and to enter into a consulting relationship for a limited period of time following the termination of Executive's employment.

AGREEMENTS

Based upon the foregoing, and in consideration of the mutual promises contained in this Agreement, Executive and the Company (for its benefit and the benefit of the other Company Parties as defined below) agree as follows:

1. Employment Status. Executive hereby resigns as Senior Vice President, Global Sales effective June 1, 2006 and his status in such position shall end effective that date. Executive shall continue full time employment with the Company (but not in the status of an officer) until June 30, 2006 (June 30, 2006 is referred to herein as the "Termination Date"). Following the Termination Date, Executive will be engaged as a consultant under the provisions of Section 2 hereof and Appendix A attached hereto ("Appendix A").

2. Engagement as a Consultant.

2.1 Executive and Company agree that Company will engage Executive as a consultant from the Termination Date until October 28, 2007 (unless earlier terminated) (the "Consulting Period") on the terms and conditions set forth in this Section 2 and in Appendix A. During the Consulting Period, the Company may share with Executive confidential information about its business, including without limitation trade secrets, technology and product roadmaps, legal theories, litigation strategies, and other technical, financial business and legal information. Executive and the Company agree that Executive's rendering services, without the Company's consent, to any entity that the Company reasonably and in good faith determines is competitive with the Company (a "Competitor"), would conflict with Executive's duties as a consultant. Therefore, during the Consulting Period, Executive will not, without the Company's written consent, render services to any Competitor (any such rendering of services is referred to herein as "Prohibited Employment"). The parties shall abide by the procedure set forth in Appendix A to determine whether any proposed employment by Executive would constitute Prohibited Employment. If Executive engages in Prohibited Employment prior to October 28, 2007, the Consulting Period shall immediately terminate. Subject to the restrictions set forth herein, Executive may render services to an entity other than a Competitor during the Consulting Period, and may, with the written consent of the Company, render services to a Competitor during the Consulting Period (each, "Permitted Employment"). Engagement in Permitted Employment

shall not cause the Consulting Period to cease. Executive may terminate the Consulting Period at any time prior to October 28, 2007 by providing written notice of termination to the Company.

2.2 Commencing on the Termination Date and continuing until the earlier of (i) June 30, 2007, or (ii) the early termination of the Consulting Period under Section 2.1, and subject to Executive's continued compliance with all of the terms and conditions of this Agreement: (a) Executive shall be paid consulting fees at the annual rate of Two Hundred Fifty Thousand Dollars ($250,000), less appropriate withholdings, payable in accordance with the Company's regular payroll practices, and (b) Executive shall continue to receive life insurance and long-term disability insurance offered to the Company's employees generally on the same terms as all other executive employees.

2.3 Executive shall continue to be covered by the Company's medical, dental and vision benefits until June 30, 2007. Coverage of Executive pursuant to the continued coverage requirements of section 601 et. seq. of the Employee Retirement Income Security Act of 1974, as amended (commonly known as "COBRA coverage") shall commence July 1, 2007. The Company shall pay the cost of Executive's COBRA coverage until June 30, 2008, and Executive shall be responsible for the cost of such coverage commencing July 1, 2008 and continuing until COBRA coverage ceases. Notwithstanding the foregoing, if the Executive engages in either Prohibited Employment or Permitted Employment before July 1, 2008, (i) any remaining obligation of the Company to provide health benefit coverage (other than any COBRA coverage then required) shall immediately cease, and (ii) the Company's obligation to pay the cost of COBRA coverage shall immediately cease.

2.4 Unless the Executive engages in Prohibited Employment, if permitted under the terms of the Company's 401(k) plan, Executive will be eligible to continue participation in such plan until June 30, 2007 and be eligible for allocation of the 2006 Company matching contribution under such plan.

2.5 Executive shall not accrue any other benefits including without limitation, vacation, flexible spending, leave entitlement, severance or other compensation after the Termination Date.

2.6 If the Executive has not engaged in Prohibited Employment on or before the date the Company pays bonuses to other executives of the Company with respect to services in 2006 (generally expected to occur in the first quarter of 2007), on that date the Company shall pay Executive a pro-rated bonus equal to the product of (i) $100,000 times (ii) a fraction, the numerator of which is the number of days in 2006 prior to the Termination Date, and the denominator of which is 365. No bonus shall be payable with respect to any period accruing after the Termination Date.

2.7 Until the earlier of (i) the last day of the Consulting Period, or (ii) the "Applicable Equity Vesting Date," as defined below, Executive will be deemed to be in the continued service of the Company for purposes of vesting in awards of options to purchase shares of the Company's common stock or restricted stock units that were in existence as of the Termination Date (collectively, the "Outstanding Awards") and provided to Executive pursuant to any plan of the Company or any stock option agreement or restricted stock unit award

agreement between Executive and the Company (collectively, the "Equity Agreements"). Therefore, in accordance with the terms of the applicable Equity Agreements, the Outstanding Awards will continue to vest (to the extent not previously vested) until the Applicable Equity Vesting Date (but in no event beyond the maximum term of the particular option or restricted stock unit, as applicable). On the earlier of (x) the last day of the Consulting Period, or (y) October 28, 2007, Executive will be deemed to have incurred a separation from service for purposes of each Outstanding Award, and Outstanding Awards that are vested stock options will remain exercisable for the period of time following such date provided for in the applicable Equity Agreement (generally an additional ninety (90) days). The "Applicable Equity Vesting Date" shall mean (A) with respect to the December, 2003 option grant made to Executive, October 28, 2007, and (B) with respect to all other Outstanding Awards, June 30, 2007. In addition, Executive relinquishes his Section 16 status when he ceases to be an officer of the Company on June 1, 2006 and will be removed from the Company's Blackout List ninety (90) days after the Termination Date. Notwithstanding Executive's removal from the Blackout List, throughout the term of this Agreement, Executive may continue to be subject to special blackout windows provided that the Company determines in good faith that Executive possesses material inside information at that time.

2.8 The Company shall have grounds for termination of the Company's obligations under this Agreement ("Termination Grounds") if Executive (a) violates in any material respect the terms and conditions of Section 2.9, Section 4.1, Section 5, Section 9, Appendix A or the Confidentiality and Inventions Assignment Agreement attached as Appendix B, and such violation is not curable or Executive fails to promptly cure such violation after written notice from the Company, or (b) engages in Prohibited Employment. If the Company believes in good faith that Termination Grounds exist, then the Company shall provide a written notice to Executive setting forth a brief description of the Termination Grounds it believes exist. If such Termination Grounds are curable by Executive, then Executive shall have 15 days from the date of such notice to cure such Termination Grounds. Upon the expiration of such 15-day period (if such Termination Grounds are curable and have not been cured), or upon providing written notice of Termination Grounds that are not curable, the Company may immediately suspend (i) the payment of any consulting fees, (ii) vesting of any then unvested stock options and restricted stock unit awards, and (iii) the exercisability of stock options (subject to the post-termination exercise period, if applicable, as set forth the in each applicable Equity Agreement). Such suspensions shall be subject to the arbitration procedure set forth in Section 10.1. If the arbitrator determines that Termination Grounds exist, then the Company's obligation to make the suspended payments and provide the suspended benefits shall terminate without further payment to Executive, and the Consulting Period shall be deemed to have ended as of the date of the suspension. If the arbitrator determines that Termination Grounds do not exist, then the suspension shall be lifted and the suspended payments and benefits shall be paid or provided to Executive.

2.9 Following the end of the Consulting Period (regardless of whether the Consulting Period terminated early), upon the reasonable requests of the Company made from time-to-time, the Executive will provide the Company with information in the Executive's possession as well as reasonable assistance regarding any business or legal issues where Executive's knowledge may be relevant.

3. Separate Payment of Vacation. The parties recognize that, apart from this Agreement and except for the payment of accrued but unused vacation pay, the Company is not obligated to provide Executive with any of the benefits set forth hereunder. Executive will be paid for all accrued but unused vacation, without regard to his execution of this Agreement, on or before the Termination Date.

4. Confidentiality Agreement and Disclosure by Company.

4.1 Executive agrees to continue to abide by the terms and provisions of the Confidentiality and Invention Assignment Agreement dated July 10, 2003 signed by Executive (the "Confidentiality Agreement"), a copy of which is attached as Appendix B to this Agreement. Nothing in this Agreement shall affect the scope, enforceability, term or any other provision of the Confidentiality Agreement.

4.2 The Company and Executive agree that the Company may disclose the existence, terms or provisions of, or any other information concerning, this Agreement to the extent the Company determines in its sole judgment that disclosure is required by law or is or otherwise appropriate.

5. Mutual Non-Disparagement. During the Consulting Period and for one year after the end of the Consulting Period: (a) Executive agrees that he will not disparage the Company or any past or present (as of the time any statement is made) officer, director or employee of the Company or otherwise make statements -- whether or not such statements are thought to be (or are) true, and whether or not such statements are made publicly, privately, subject to confidentiality obligations or otherwise -- which could tend to harm or injure the personal or business reputation or business, of the Company or of any past or present officer, director or employee of the Company, and whether or not such statements are made to any present or former employee or director of the Company or to someone outside of the Company. The Company agrees that it will instruct its "named executive officers," as defined in 17 CFR 229.402(a)(3) to not, during the Consulting Period and for one year after the end of the Consulting Period, disparage Executive or otherwise make statements -- whether or not such statements are thought to be (or are) true, and whether or not such statements are made publicly, privately, subject to confidentiality obligations, or otherwise -- which could tend to harm or injure the personal or business reputation, or business, of Executive, and whether or not such statements are made to any present or former employee or director of the Company or to someone outside of the Company.

Without limiting the generality of this Section 5, in response to any inquiries or in connection with any explanation of the reasons for the end of Executive's employment with the Company, the parties agree that the Company may provide a response substantially as follows: "The Company's policy is to just confirm the date of hire, date of termination, positions held and salary, bonus and options (without disclosing the number of options)" and the Company may then provide the foregoing information if requested. If asked, the Company will also confirm Executive's engagement as a consultant with the Company and his current salary and benefits. After the end of his employment, the Company may also state that Executive resigned and voluntarily ended his employment with the Company.

6. Release and Waiver.

6.1 Release of Company Parties. Except for the obligations of the Company as provided in this Agreement, Executive, on behalf of himself and his successors, heirs, assigns, related individuals and entities (if any), hereby fully and forever releases and discharges Company and any of its parent corporations, subsidiaries (whether or not wholly-owned), brother-sister corporations, and all other affiliated, related, predecessor or successor corporations and entities, and each of their respective present and former officers, representatives, administrators, accountants, attorneys, investigators, insurers, partners, associates, successors and assigns, in any and all capacities (including but not limited to the fiduciary, representative or individual capacity of any released person or entity), and any entity owned by or affiliated with any of the foregoing (each a "Company Party" and together, the "Company Parties") from, and covenants not to sue or otherwise institute or cause to be instituted any legal or administrative proceedings against the Company or Company Parties with respect to, any matter arising out of or relating to Executive's employment, or the termination thereof, or any acts of the Company or any Company Party, including, without limitation, any claims and causes of action against the Company or any Company Party that relate to conduct occurring before and up to the date of this Agreement. Moreover, Executive releases, acquits and discharges the Company and the Company Parties from any and all rights, actions, claims, demands, costs and expenses (including but not limited to attorneys fees), contracts, allegations, liabilities, obligations, debts, damages and causes of action, whether known, suspected or unknown, fixed or contingent, apparent or concealed, which Executive had or now has or may claim to have had by reason of any matter or thing at any time up to and including the date Executive executes this Agreement. The foregoing notwithstanding, this release shall not extend to claims for indemnification permitted under common law, the Company's Bylaws or Articles of Incorporation or the Indemnification Agreement dated June 28, 2003 between Executive and the Company (the "Indemnification Agreement"), provided, however, that Executive shall notify the Company in writing within fifteen (15) days of receipt of notice of any claim subject to such indemnification.

6.2 Acknowledgement and Waiver. Executive understands and agrees that he is waiving any rights he may have had, now has, or in the future may have, to pursue any and all remedies available to him individually or on behalf of others to any claims based on, arising out of, or related to Executive's employment with, or the termination of Executive's employment with, the Company, including but not limited to any claims arising from rights under federal, state, and local laws relating to the regulation of federal or state tax payments or accounting; federal, state or local laws that prohibit harassment or discrimination on the basis of race, national origin, religion, sex, gender, age, marital status, bankruptcy status, disability, perceived disability, ancestry, sexual orientation, family and medical leave, or any other form of harassment or discrimination or related cause of action (including but not limited to failure to maintain environment free from harassment and retaliation); laws such as workers' compensation laws, which provide rights and remedies for injuries sustained in the workplace; statutory or common law claims of any kind, including but not limited to, contract, tort, and property rights, unfair business practices, breach of contract, breach of implied-in-fact contract, breach of the implied covenant of good faith and fair dealing, tortious interference with contract or current or prospective economic advantage, fraud, deceit, invasion of privacy, unfair competition, misrepresentation, defamation, wrongful termination, tortious infliction of emotional distress (whether intentional or negligent), breach of fiduciary duty, violation of public

policy, or any other common law claim of any kind whatsoever; any claims for severance pay, sick leave, family leave, liability pay, overtime pay, vacation, life insurance, health insurance, continuation of health benefits, disability or medical insurance or any other fringe benefit or compensation, including stock options; any and all rights or claims arising under Title VII of the 1964 Civil Rights Act, as amended, the California Fair Employment and Housing Act, and any other state or federal statutes relating to securities, discrimination or wrongful termination of employment or employment related claims, the Equal Pay Act of 1963, the Americans with Disabilities Act, California Labor Code Section 1197.5, the Age Discrimination in Employment Act of 1967, as amended, the Civil Rights Act of 1866, the California Business and Professions Code Section 17200 et seq., the Employee Retirement Income Security Act of 1976 ("ERISA") and any other laws and regulations relating to employment or the Executive's receipt of wages, stock, stock options or other compensation or benefits. Executive represents and warrants that as of the date this Agreement is executed by him, he has not suffered any work related injuries or illnesses.

6.3 ADEA Waiver. Executive expressly acknowledges and agrees that by entering into this Agreement, he is waiving any and all rights or claims that he may have arising under the Age Discrimination Employment Act of 1967, as amended ("ADEA"), which have arisen on or before the date of execution of this Agreement. Executive further expressly acknowledges and agrees that: (a) in return for this Agreement, he will receive consideration beyond that which he was already entitled to receive before entering into this Agreement; (b) he is hereby advised in writing by this Agreement to consult with an attorney before signing this Agreement; (c) he was given a copy of the Agreement on June 1, 2006 and informed that he had twenty-one (21) days within which to consider the Agreement and that if he wished to execute this Agreement prior to expiration of such 21-day period, he should execute the Acknowledgement and Waiver attached hereto as Appendix C; (d) nothing in this Agreement prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs from doing so, unless specifically authorized by federal law; and (e) he was informed that he has seven (7) days following the date of execution of this Agreement in which to revoke this Agreement, and this Agreement will become null and void if Executive elects revocation during that time. Any revocation must be in writing and must be received by the Company during the 7-day revocation period. In the event Executive exercises his right of revocation, neither the Company nor Executive will have any obligations under this Agreement.

6.4 Tax Treatment. Executive expressly acknowledges and agrees that the release provided by Executive to the Company herein fully releases any claim the Executive may have had, now has, or in the future may have with respect to the Federal, state and local tax treatment of the consideration provided under this Agreement, including but not limited to claims related to any taxes or penalties arising under Section 409A of the Internal Revenue Code or comparable provisions of any state law with respect to the continued exercisability of stock options following the Termination Date, and without regard to whether the Executive actually performs or is deemed to have performed consulting services during the Consulting Period.

6.5 Termination of Special Retention Program. Executive expressly acknowledges and agrees that the special retention program set forth in a letter agreement dated November 11, 2004 shall terminate with respect to Executive as of the date of this Agreement.

Executive expressly acknowledges and agrees that he is not now and will not in the future be entitled to any payments or benefits under the special retention program, and he expressly waives any rights or claims had, now has, or in the future may have.

6.6 Mistakes in Fact/Voluntary Consent. Executive expressly and knowingly acknowledges that, after the execution of this Agreement, he may discover facts different from or in addition to those that he now knows or believes to be true with respect to the claims released in this Agreement. Nonetheless, Executive agrees that this Agreement shall be and remain in full force and effect in all respects, notwithstanding such different or additional facts. It is the intention of Executive to fully, finally, and forever settle and release any and all claims he may have against the Company and the Company Parties. In furtherance of such intention, the release given in this Agreement shall be and remain in effect as a full and complete release of such claims, notwithstanding the discovery and existence of any additional or different claims or facts. This Agreement is intended, pursuant to the advice of independently selected legal counsel, to be final and binding between and among the parties to this Agreement, regardless of any allegations of misrepresentations, or promises made without the intention of performance, or concealments of facts, or mistake of fact or law, or of any other circumstances whatsoever.

In furtherance of Executive's intention, Executive waives any and all rights or benefits which he or it may have under the provisions of California Civil Code Section 1542, which provides as follows:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR [EXECUTIVE] DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR [COMPANY]."

6.7 Follow-up Release. At the end of the Consulting Period, the Executive shall execute and deliver to the Company the follow-up release attached hereto as Appendix D.

7. Non-assignment and Absence of Claims. Executive represents and warrants that he has not assigned or transferred any portion of any claim that he has or may have to any other person, firm, corporation or any other entity, and that no other person, firm, corporation, or other entity has any lien or interest in any such claim. Executive represents that he has not filed any claims, charges, complaints or actions against the Company or any Company Parties, or assigned to anyone any charges, complaints, claims or actions against the Company or any Company Parties. Executive also agrees that if any claim is prosecuted in his name before any court or administrative agency that he waives and agrees not to take any award or other damages from such suit. This provision, however, shall apply only to the extent permissible under applicable law.

8. No Admission of Liability. The parties acknowledge and covenant that this Agreement represents a settlement and compromise of any claims Executive may have against the Company or the Company Parties, and that by entering into this Agreement, no party admits or acknowledges the existence of any liability or wrongdoing, all such liability or wrongdoing being expressly denied.

9. Return of Company Property. Executive represents and warrants that on or before June 30, 2006 he will deliver, to the Company and/or the Company's counsel, all tangible property of the Company in his possession, custody or control, including all originals and copies of documents, all documents and materials, of whatever nature, relating to the Company, its products and/or its services, and/or Executive's employment with the Company, including without limitation all datasheets, files, memoranda, emails, records, software, disks, instructional manuals and other physical or personal property that Executive received, prepared or helped prepare in connection with his employment with the Company. Executive further agrees that he will not keep any paper or electronic copies or excerpts of any of the above items and that he has no property or other interest in such documents and materials. Such documents as are necessary for Executive to perform his duties as a consultant during the Consultant Period shall be provided to Executive by the Company and those documents will be returned to the Company on or before the termination of the Consulting Period.

10. Confidential Arbitration of Disputes.

10.1 Any controversy, dispute, or claim between the parties to this Agreement, including without limitation any claim arising out of, in connection with, or in relation to the formation, interpretation, performance or breach of this Agreement shall be settled exclusively by expedited arbitration, before a single arbitrator, in accordance with this Section and the then most applicable rules of the Judicial Arbitration and Mediation Services (JAMS) in Orange County, California, or its successor. The hearing and arbitration proceedings (as well as any resulting judicial proceedings seeking to enforce or vacate any arbitration award) shall be conducted in as confidential a manner as is legally permissible and any award and decision of the arbitrator shall be written in such a way as to protect the confidentiality of information made confidential by this Agreement or recognized as confidential by the Confidentiality Agreement. Any demand for arbitration by either party must be filed within the statute or statutes of limitation that is or are applicable to the claim(s) relating to the dispute upon which arbitration is sought or required. The arbitration shall be administered by JAMS pursuant to its Comprehensive Arbitration Rules and Procedures if the amount in controversy exceeds $250,000, or pursuant to its Streamlined Arbitration Rules and Procedures if the amount in controversy is $250,000 or less. Both parties will be entitled to conduct discovery in accordance with the rules and procedures as set forth in the California Code of Civil Procedure. The arbitrator shall have the same, but no greater, remedial authority as would a court hearing the same dispute. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Judgment on the award may be entered in any court having jurisdiction; provided, however, that the arbitrator's award shall be subject to correction, confirmation or vacation in accordance with the provisions and standards of applicable law governing the judicial review of arbitration awards. Notwithstanding the foregoing, either party may in an appropriate matter apply to a court pursuant to California Code of Civil Procedure Section 1281.8, or any comparable statutory provision or common law principle, for provisional relief, including a temporary restraining order or a preliminary injunction. To the extent permitted by law, the proceedings and results, including the arbitrator's decision, shall be kept confidential.

10.2 Right to Take or Forbear From Action. Although all disputes between the parties are to be resolved pursuant to the dispute resolution procedure set forth in this Section 10,

commencement or exhaustion of the dispute resolution procedure is not prerequisite to any party taking or forbearing from any action that the party in good faith believes is consistent with this Agreement. Thus, by way of example and not limitation, in the event the Company in good faith believes Termination Grounds exist, the Company may suspend payments and benefits under this Agreement as set forth in Section 2.8 prior to the commencement or initiation of the dispute resolution procedure, and if Executive subsequently prevails in the dispute resolution procedure, Executive will be entitled only to those payments and benefits that were due to Executive under this Agreement.

11. Miscellaneous Provisions.

11.1 Cooperation and Indemnification. Executive agrees to cooperate with the Company in connection with any future, potential or currently pending litigation, including, without limitation, by providing information within Executive's knowledge to Company and by making himself reasonably available to testify in any action as reasonably requested by the Company.

11.2 Additional Documents. The parties will execute all such further and additional documents and undertake all such other actions as shall be reasonable, convenient, necessary or desirable to carry out the provisions of this Agreement.

11.3 Notices. Written notices required or permitted to be given pursuant to this Agreement shall be given as follows:

If to Executive: At the address and facsimile no. set forth on the signature page of this Agreement.

If to the Company:

Broadcom Corporation
16215 Alton Parkway
P. O. Box 57013
Irvine, CA 92619-7013
Attn: General Counsel
Facsimile No.: (949) 450-0504

Such notice shall be deemed to have been duly given: (i) when delivered by hand, if personally delivered; (ii) five business days after being deposited in the U.S. Mail, postage prepaid, if mailed certified mail, return receipt requested; (iii) one business day after being timely delivered to a nationally-recognized next-day air courier guaranteeing overnight delivery; (iv) the date of transmission if sent via confirmed facsimile transmission to the facsimile number as set forth in this Section or the signature page hereof prior to 6:00 p.m. in the recipient's time zone on a business day, or (v) the business day next following the date of transmission if sent via confirmed facsimile transmission to a facsimile number set forth in this Section or on the signature page hereof after 6:00 p.m. in the recipient's time zone or on a date that is not a business day. Change of a party's address or facsimile number may be designated hereunder by giving notice to all of the other parties hereto in accordance with this Section 11.3.

11.4 Integration. This Agreement constitutes a single, integrated written contract expressing the entire Agreement of the parties concerning the subject matter referred to in this Agreement. No covenants, agreements, representations, or warranties of any kind whatsoever, whether express or implied in law or fact, have been made by any party to this Agreement, except as specifically set forth in this Agreement. All prior and contemporaneous discussions, negotiations, and agreements have been and are merged and integrated into, and are superseded by, this Agreement; provided, however, that the Confidentiality Agreement and the Indemnification Agreement shall remain in full force and effect in accordance with their respective terms and as provided in Sections 4.1 and 6.1 hereof, respectively.

11.5 Modifications. No modification, amendment, or waiver of any of the provisions contained in this Agreement, or any future representation, promise, or condition in connection with the subject matter of this Agreement, shall be binding upon any party to this Agreement unless made in writing and signed by each of Executive and the Company.

11.6 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law but if any provision of this Agreement is held to be void, voidable, invalid, illegal or for any other reason unenforceable, the validity, legality and enforceability of the other provisions of this Agreement will not be affected or impaired thereby.

11.7 Non-Reliance on Other Parties. Except for statements expressly set forth in this Agreement, no party has made any statement or representation to any other party regarding a fact relied on by the other party in entering into this Agreement, and no party has relied on any statement, representation, or promise of any other party, or of any representative or attorney for any other party, in executing this Agreement or in making the settlement provided for in this Agreement.

11.8 Negotiated Agreement. The terms of this Agreement are contractual, not a mere recital, and are the result of negotiations between the parties. Accordingly, no party shall be deemed to be the drafter of this Agreement.

11.9 Construction. Whenever the context so requires, the singular number shall include the plural number and vice versa, and the masculine gender shall include the feminine (or neuter) gender and vice versa.

11.10 Headings. The descriptive headings and sub-headings of the several section(s) contained in this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

11.11 Successors and Assigns. This Agreement shall inure to the benefit of and shall be binding upon the heirs, successors, and assigns of the parties hereto and each of them. In the case of the Company, this Agreement is intended to release and inure to the benefit of any affiliated corporations, parent corporations, brother-sister corporations, subsidiaries (whether or not wholly owned), divisions, shareholders, officers, directors, agents, representatives, principals, employees, and any and all other related individuals and entities.

11.12 Applicable Law. This Agreement shall be construed in accordance with, and governed by, the laws of the State of California without taking into account conflict of law principles.

11.13 Counterparts. This Agreement may be executed and delivered in any number of counterparts or copies ("Counterparts") by the parties to this Agreement. When each party has signed and delivered at least one Counterpart to the other party to this Agreement, each counterpart shall be deemed an original and, taken together, shall constitute one and the same Agreement, which shall be binding and effective as to the parties to this Agreement. Such delivery may be made by confirmed facsimile transmission.

11.14 Independent Advice from Counsel. Each of the parties has received prior independent legal advice from legal counsel of such party's choice with respect to the advisability of making the settlement provided for in this Agreement and with respect to the advisability of executing this Agreement. Each party's attorney has reviewed the Agreement at length, made any desired changes, and signed the Agreement to indicate that the attorney approved the Agreement as to form and substance.

11.15 Knowing and Voluntary Agreement. Each party acknowledges that he or it is entering into this Agreement knowingly and voluntarily after having had an opportunity to negotiate with regard to the terms of this Agreement, to receive advice with regard to it, to carefully read and consider its terms, and to make such investigation of the facts pertaining to the settlement and this Agreement and of all matters pertaining to this Agreement as such party deems necessary or desirable.

IN WITNESS WHEREOF, the parties hereto and their respective attorneys of record have approved and executed this Agreement on the dates specified below.

June 2, 2006 THE COMPANY:

BROADCOM CORPORATION, a California corporation

By: /s/ Scott A. McGregor
------------------------------------
Scott A. McGregor
President and Chief Executive Officer

June 2, 2006 EXECUTIVE:

/s/ Andrew J. Pease
------------------------------------
Name: Andrew J. Pease

Address:
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Facsimile No.:
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June 2, 2006 AGREED AS TO FORM AND SUBSTANCE:

LAW OFFICE OF ACKERMAN AND KEVORKIAN

By: /s/ Kevin B. Kevorkian
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Print Name: Kevin B. Kevorkian
Title: Attorney

Address:
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Facsimile No.:
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June 2, 2006 AGREED AS TO FORM AND SUBSTANCE:

O'MELVENY & MYERS LLP

By: /s/ Wayne Jacobsen
------------------------------------
Print Name: Wayne Jacobsen
Title: Attorney

Address: 610 Newport Center Drive, #1700
Newport Beach, CA 92660
Facsimile No.: (949) 823-6994

APPENDIX A

TERMS OF CONSULTANCY

1. This Appendix A sets forth the terms of Executive's engagement as a consultant to the Company following the Date of Termination, as referred to in Section 2 of the Separation Agreement and Release of All Claims (the "Agreement"). Capitalized terms used in this Appendix A have the meanings set forth in the Agreement.

2. The timing and scope of Executive's services to the Company during the Consulting Period will be as reasonably determined by the Company. Executive may provide such services, to the extent feasible, on a basis that avoids conflict with his obligations to others to whom he is then providing services. The Company agrees that it will make commercially reasonable efforts to (i) schedule the dates and times Executive will perform his consulting services during regular business days and hours, (ii) provide Executive reasonable advance notice of such schedule, and (iii) accommodate Executive's reasonable requests regarding such schedule. Executive and the Company acknowledge and agree that limitations and deadlines concerning the scheduling of Executive's services may be imposed by the Company as a result of the Company's need to comply with schedules and deadlines established by persons other than the Company (such as, by way of example and not limitation, schedules established pursuant to the order of a judge or magistrate or otherwise pursuant to court rules). Executive and the Company also acknowledge and agree that extenuating circumstances, such as the need to comply with schedules and deadlines as described in the preceding sentence, may limit the Company's ability to provide advance notice of the dates and times Executive will perform Executive's consulting services, although the Company will make commercially reasonable efforts to do so. Without limitation, Executive's consulting services to the Company may include meetings with the Company's internal and external legal counsel, review of documents and other evidence and forensic materials, providing evidence and testimony, and preparing to provide evidence and testimony, with respect to one or more legal matters involving the Company. The time Executive will be required to devote to services to the Company during the Consulting Period will not exceed the limits set forth in paragraph 3 of this Appendix A.

3. During any twelve-month period within the Consulting Period, without Executive's consent, Executive will not be required to perform more than 200 hours of consulting services in the aggregate, and during any single calendar month Executive will not be required to perform more than 17 hours of consulting services. The monthly limits on the number of hours Executive can be required to perform consulting services will not apply in any month in which Executive is providing testimony in any deposition, trial, arbitration or similar proceeding, or at the Company's request is preparing for such testimony, but the twelve month limits will still apply. In the event that Executive provides more than the 200 hours of consulting services required during any twelve-month period within the Consulting Period, Executive and the Company will agree on the amount of additional compensation to be paid to Executive for the additional hours served.

4. It is intended and expected that Executive will provide substantial consulting services under this Agreement. However, because the precise extent to which the Company will request Executive's services is not known, it is agreed that the consideration for Executive's

consulting services, as set forth in the Agreement, will be payable to Executive regardless of the actual extent to which the Company requests that Executive provide consulting services. However, if Executive unreasonably refuses or fails to provide consulting services requested by the Company consistent with this Appendix A, or the Consulting Period is terminated early as provided in Section 2 of the Agreement, payment of such consideration will cease.

5. Consistent with Executive's status as a consultant during the Consulting Period, and to allow the parties to determine if any employment by Executive would constitute Prohibited Employment, Executive may not render services to another company without notifying the Company as set forth below. Executive is free to seek opportunities to render services (as an employee or otherwise) to another company during the Consulting Period. If Executive accepts an opportunity to render services to another company during the Consulting Period, he shall promptly notify the Company in writing. If Executive is considering an opportunity to render services during the Consulting Period ("Possible Employment"), the Executive may if he so chooses notify the Company of such Possible Employment; any such notice to be in a writing delivered to the Company's President and Chief Executive Officer. The Company shall review any such notice and notify Executive within five (5) business days of the Company's receipt of such notice whether the Company would regard such Possible Employment as Prohibited Employment. If the Company's initial advice to Executive is that the Company would regard the Possible Employment as Prohibited Employment, the Executive may request that the Company reconsider its initial determination. Any such request shall be by written notice delivered to the Chairman of the Board of the Company. The Company shall notify Executive of the results of any such reconsideration within five (5) business days of the Company's receipt of the request for reconsideration. Any remaining dispute following such reconsideration shall be subject to Section 10 of the Agreement. In determining whether to consent to Executive's employment with a Competitor, the Company will take into account the extent to which Executive's knowledge related to the Company could reasonably be expected to adversely affect the Company if Executive was so employed.

**EXHIBIT 31**

**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

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

Date: January 23, 2007

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

I, Bruce E. Kiddoo, Vice President and Acting 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/ BRUCE E. KIDDOO

Bruce E. Kiddoo
*Vice President and Acting Chief Financial Officer*
*(Principal Financial and Accounting Officer)*

Date: January 23, 2007

**EXHIBIT 32**

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

**Certification of Chief Executive Officer**

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2006 (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

Scott A. McGregor

*Chief Executive Officer*

Date: January 23, 2007

**Certification of Chief Financial Officer**

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2006 (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/ BRUCE E. KIDDOO

Bruce E. Kiddoo

*Acting Chief Financial Officer*

Date: January 23, 2007