



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(MARK ONE)



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

For the quarterly period ended January 30, 2011

OR



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

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

Commission File Number: 001-34428

**Avago Technologies Limited**

(Exact Name of Registrant as Specified in Its Charter)

Singapore  
(State or Other Jurisdiction of  
Incorporation or Organization)

N/A  
(I.R.S. Employer  
Identification No.)

1 Yishun Avenue 7  
Singapore 768923  
(Address of Principal Executive Offices)

N/A  
(Zip Code)

(65) 6755-7888

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐  
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

As of March 4, 2011 there were 245,238,670 shares of our ordinary shares, no par value per share, outstanding.

**AVAGO TECHNOLOGIES LIMITED**  
**Quarterly Report on Form 10-Q**  
**For the Quarterly Period Ended January 30, 2011**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b><u>PART I — FINANCIAL INFORMATION</u></b>	
<a href="#"><u>Item 1. Condensed Consolidated Financial Statements — Unaudited</u></a>	3
<a href="#"><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>	19
<a href="#"><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></a>	25
<a href="#"><u>Item 4. Controls and Procedures</u></a>	25
<b><u>PART II — OTHER INFORMATION</u></b>	
<a href="#"><u>Item 1. Legal Proceedings</u></a>	26
<a href="#"><u>Item 1A. Risk Factors</u></a>	27
<a href="#"><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	44
<a href="#"><u>Item 3. Defaults Upon Senior Securities</u></a>	44
<a href="#"><u>Item 5. Other Information</u></a>	45
<a href="#"><u>Item 6. Exhibits</u></a>	47
<a href="#"><u>SIGNATURES</u></a>	48
<a href="#"><u>EX-10.1</u></a>	
<a href="#"><u>EX-31.1</u></a>	
<a href="#"><u>EX-31.2</u></a>	
<a href="#"><u>EX-32.1</u></a>	
<a href="#"><u>EX-32.2</u></a>	
<a href="#"><u>EX-101 INSTANCE DOCUMENT</u></a>	
<a href="#"><u>EX-101 SCHEMA DOCUMENT</u></a>	
<a href="#"><u>EX-101 CALCULATION LINKBASE DOCUMENT</u></a>	
<a href="#"><u>EX-101 LABELS LINKBASE DOCUMENT</u></a>	
<a href="#"><u>EX-101 PRESENTATION LINKBASE DOCUMENT</u></a>	

# PART I — FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements — Unaudited

### **AVAGO TECHNOLOGIES LIMITED** **CONDENSED CONSOLIDATED BALANCE SHEETS — UNAUDITED** (in millions, except share amounts)

	October 31, 2010 (1)	January 30, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 561	\$ 363
Trade accounts receivable, net	285	291
Inventory	189	203
Other current assets	52	53
Total current assets	1,087	910
Property, plant and equipment, net	281	281
Goodwill	172	175
Intangible assets, net	573	557
Other long-term assets	44	48
Total assets	<u>\$ 2,157</u>	<u>\$ 1,971</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 198	\$ 156
Employee compensation and benefits	82	51
Accrued interest	12	0
Capital lease obligations — current	2	2
Other current liabilities	41	28
Current portion of long-term debt	230	—
Total current liabilities	565	237
Long-term liabilities:		
Capital lease obligations — non-current	4	5
Other long-term liabilities	83	85
Total liabilities	652	327
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Ordinary shares, no par value; 239,888,231 shares and 243,427,133 shares issued and outstanding on October 31, 2010 and January 30, 2011, respectively	1,450	1,487
Retained earnings	59	161
Accumulated other comprehensive loss	(4)	(4)
Total shareholders' equity	1,505	1,644
Total liabilities and shareholders' equity	<u>\$ 2,157</u>	<u>\$ 1,971</u>

(1) Amounts as of October 31, 2010 have been derived from audited financial statements as of that date.

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

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

	Quarter Ended	
	January 31, 2010	January 30, 2011
Net revenue	\$ 456	\$ 550
Cost of products sold:		
Cost of products sold	247	265
Amortization of intangible assets	15	14
Total cost of products sold	262	279
Gross margin	194	271
Research and development	64	73
Selling, general and administrative	46	50
Amortization of intangible assets	5	6
Restructuring charges	1	0
Total operating expenses	116	129
Income from operations	78	142
Interest expense	(11)	(3)
Loss on extinguishment of debt	(24)	(19)
Other income (expense), net	(1)	0
Income before income taxes	42	120
Provision for income taxes	4	1
Net income	<u>\$ 38</u>	<u>\$ 119</u>
Net income per share:		
Basic:		
Net income	<u>\$ 0.16</u>	<u>\$ 0.49</u>
Diluted:		
Net income	<u>\$ 0.16</u>	<u>\$ 0.48</u>
Weighted average shares :		
Basic	236	242
Diluted	244	250

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

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

	<b>Quarter Ended</b>	
	<b>January 31, 2010</b>	<b>January 30, 2011</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 38	\$ 119
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39	41
Amortization of debt issuance costs	1	0
Loss on extinguishment of debt	8	5
Loss on disposal of property, plant and equipment	1	0
Share-based compensation	5	7
Tax benefits from share-based compensation	—	8
Excess tax benefits from share-based compensation	—	(2)
Changes in assets and liabilities, net of acquisition:		
Trade accounts receivable, net	(17)	(5)
Inventory	(4)	(14)
Accounts payable	5	(30)
Employee compensation and benefits	(9)	(31)
Other current assets and current liabilities	(28)	(31)
Other long-term assets and long-term liabilities	2	—
<b>Net cash provided by operating activities</b>	<b>41</b>	<b>67</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(9)	(32)
Acquisition and investment, net of cash acquired	—	(9)
<b>Net cash used in investing activities</b>	<b>(9)</b>	<b>(41)</b>
<b>Cash flows from financing activities:</b>		
Issuance of ordinary shares, net of issuance costs	4	22
Dividend payments to shareholders	—	(17)
Debt repayments	(364)	(230)
Payment on capital lease obligation	—	(1)
Excess tax benefits from share-based compensation	—	2
<b>Net cash used in financing activities</b>	<b>(360)</b>	<b>(224)</b>
Net decrease in cash and cash equivalents	(328)	(198)
Cash and cash equivalents at the beginning of period	472	561
Cash and cash equivalents at end of period	<u>\$ 144</u>	<u>\$ 363</u>

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

**AVAGO TECHNOLOGIES LIMITED****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Overview and Basis of Presentation****Overview**

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

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

**Basis of Presentation**

*Fiscal Periods.* We operate on a 52/53-week fiscal year ending on the Sunday closest to October 31. Our first quarter of fiscal year 2011 ended on January 30, 2011, the second quarter will end on May 1, 2011, the third quarter will end on July 31, 2011 and the fourth quarter will end on October 30, 2011.

*Information.* The unaudited condensed consolidated financial statements include the accounts of Avago and all of our wholly-owned subsidiaries, and are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Intercompany transactions and balances have been eliminated in consolidation.

Interim information presented in the unaudited condensed consolidated financial statements has been prepared by management and, in the opinion of management, includes all adjustments of a normal recurring nature that are necessary for the fair statement of the financial position, results of operations and cash flows for the periods shown, and is in accordance with GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the fiscal year ended October 31, 2010, or fiscal year 2010, included in Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on December 15, 2010.

The operating results for the quarter ended January 30, 2011 are not necessarily indicative of the results that may be expected for the year ending October 30, 2011, or fiscal year 2011, or for any other future period. The balance sheet data as of October 31, 2010 presented is derived from the audited financial statements as of that date.

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

*Concentrations of credit risk and significant customers.* Our cash, cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents are placed with financial institutions that management believes are of high credit quality. Our accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. Credit risk with respect to accounts receivable is generally diversified due to the large number of entities comprising our customer base and their dispersion across many different industries and geographies. We perform ongoing credit evaluations of our customers' financial conditions, and require collateral, such as letters of credit and bank guarantees, in certain circumstances.

We sell our products through our direct sales force and distributors. No customer accounted for 10% or more of our net accounts receivable balance at October 31, 2010. One customer accounted for 10% of our net accounts receivable balance at January 30, 2011. For the quarter ended January 30, 2011, no single customer represented 10% or more of net revenue. One customer represented 10% of net revenue for the quarter ended January 31, 2010.

*Concentration of other risks.* The semiconductor industry is characterized by rapid technological change, competitive pricing pressures and cyclical market patterns. Our financial results are affected by a wide variety of factors, including general economic conditions worldwide, economic conditions specific to the semiconductor industry, the timely implementation of new manufacturing technologies, the ability to safeguard patents and intellectual property in a rapidly evolving market and reliance on assembly and test subcontractors, third-party wafer fabricators and independent distributors. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times. We are exposed to the risk of obsolescence of our inventory depending on the mix of future business.

## [Table of Contents](#)

*Net income (loss) per share.* Basic net income (loss) per share is computed by dividing net income (loss)—the numerator—by the weighted-average number of shares outstanding—the denominator—during the period, excluding the dilutive effect of options and other employee plans. Diluted net income (loss) per share gives effect to all potentially dilutive ordinary share equivalents outstanding during the period.

Diluted net income per share for the quarters ended January 31, 2010 and January 30, 2011 excluded the potentially dilutive effect of weighted-average options to purchase 4 million and less than 1 million ordinary shares, respectively, as their effect was antidilutive.

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

	Quarter Ended	
	January 31, 2010	January 30, 2011
<b>Net income (Numerator):</b>		
Net income	\$ 38	\$ 119
<b>Shares (Denominator):</b>		
Basic weighted average ordinary shares outstanding	236	242
Add: Incremental shares for:		
Dilutive effect of share options	8	8
Shares used in diluted computation	<u>244</u>	<u>250</u>
<b>Net income per share:</b>		
Basic:		
Net income	\$ 0.16	\$ 0.49
Diluted:		
Net income	\$ 0.16	\$ 0.48

*Warranty.* We accrue for the estimated costs of product warranties at the time revenue is recognized. Product warranty costs are estimated based upon our historical experience and specific identification of the products' requirements, which may fluctuate based on product mix. Additionally, we accrue for warranty costs associated with unanticipated product quality issues if a loss is probable and can be reasonably estimated.

The following table summarizes the changes in our warranty accrual (in millions):

Balance as of November 1, 2009 — included in other current liabilities	\$ 7
Charged to cost of products sold	5
Utilized	—
Balance as of January 31, 2010 — included in other current liabilities	<u>\$ 12</u>
Balance as of October 31, 2010 — included in other current liabilities	\$ 17
Charged to cost of products sold	—
Utilized	(1)
Balance as of January 30, 2011 — included in other current liabilities	<u>\$ 16</u>

During the first quarter of fiscal year 2010, we recorded a warranty-related charge of \$5 million based on one specific quality issue impacting multiple customers. See Note 11. "Commitments and Contingencies" for further details.

## *Recently Adopted Accounting Guidance*



In the first quarter of fiscal year 2011, the guidance issued by the Financial Accounting Standards Board or FASB on the milestone method of revenue recognition became effective. The new guidance recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development transactions. A milestone is substantive when the consideration earned from achievement of the milestone is commensurate with either (a) the vendor's performance to achieve the milestone or (b) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the vendor's performance to achieve the milestone and the consideration earned from the achievement of a milestone relates solely to past performance and is reasonable relative to all of the deliverables and payment terms (including other potential milestone considerations) within the arrangement. The guidance may be applied retrospectively to all arrangements or prospectively to milestones achieved after the effective date. The adoption of this guidance did not have a significant impact on our results of operations and financial position.

In the first quarter of fiscal year 2011, we adopted the FASB's updated guidance that amends the requirements for evaluating whether a decision maker or service provider has a variable interest to clarify that a quantitative approach should not be the sole consideration in assessing the criteria. It also clarifies that related parties should be considered in applying all of the decision maker and service provider criteria. This is in addition to the authoritative guidance the FASB issued in June 2009 that applies to determining whether an entity is a variable interest entity and requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This new guidance eliminates the exceptions to consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. The guidance also contains a new requirement that any term, transaction, or arrangement that does not have a substantive effect on an entity's status as a variable interest entity, a company's power over a variable interest entity, or a company's obligation to absorb losses or its right to receive benefits of an entity must be disregarded in applying the existing provisions. The elimination of the qualifying special-purpose entity concept and its consolidation exceptions means more entities will be subject to consolidation assessments and reassessments. The adoption of this guidance did not have a significant impact on our results of operations and financial position.

In the first quarter of fiscal year 2011, we adopted the guidance the FASB issued on revenue recognition that addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the arrangement consideration should be allocated among the separate units of accounting. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. The adoption of this guidance did not have a significant impact on our results of operations and financial position.

In the first quarter of fiscal year 2011, we adopted the FASB guidance that modifies the scope of the software revenue recognition guidance to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. The adoption of this new guidance did not have a significant impact on our results of operations and financial position.

#### *Recent Accounting Guidance Not Yet Adopted*

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures, which requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 fair value measurements (see Note 6. "Fair Value" for further discussion of fair value measurements). This guidance will be effective for our fiscal year ending October 28, 2012, and its interim periods. Other than requiring additional disclosures in our financial statements, we believe the adoption of this guidance will not have a significant impact on our results of operations and financial position.

## [Table of Contents](#)

### 2. Inventory

Inventory consists of the following (in millions):

	October 31, 2010	January 30, 2011
Finished goods	\$ 61	\$ 61
Work-in-process	96	106
Raw materials	32	36
Total inventory	<u>\$ 189</u>	<u>\$ 203</u>

### 3. Acquisition

During the first quarter of fiscal year 2011, we acquired a U.S. - based company engaged in the manufacturing of integrated circuits for approximately \$8 million in cash. The purchase price was allocated to the acquired net assets based on preliminary estimates of fair values as follows: total assets of \$8 million, including intangible assets of \$4 million and goodwill of \$3 million. The intangibles are being amortized over their useful lives ranging from 5 to 15 years. The unaudited condensed consolidated financial statements include the results of operations of the acquired business commencing as of the acquisition date. Pro forma results of operations for the acquisition have not been presented because the effects of the acquisition were not material to our prior financial statements.

### 4. Goodwill and Intangible Assets

#### *Goodwill*

The following summarizes the changes in goodwill (in millions):

Balance as of October 31, 2010	
Goodwill	\$ 172
Accumulated impairment losses	—
	172
Goodwill acquired during the period (Note 3. "Acquisition")	3
Impairment losses	—
Balance as of January 30, 2011	
Goodwill	175
Accumulated impairment losses	—
	<u>\$ 175</u>

[Table of Contents](#)

**Intangible Assets**

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

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<b>As of October 31, 2010:</b>			
Purchased technology	\$ 727	\$ (290)	\$ 437
Customer and distributor relationships	254	(120)	134
Other	4	(2)	2
Total	<u>\$ 985</u>	<u>\$ (412)</u>	<u>\$ 573</u>
<b>As of January 30, 2011:</b>			
Purchased technology	\$ 728	\$ (304)	\$ 424
Customer and distributor relationships	257	(126)	131
Other	4	(2)	2
Total	<u>\$ 989</u>	<u>\$ (432)</u>	<u>\$ 557</u>

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

	<u>Quarter Ended</u>	
	<u>January 31, 2010</u>	<u>January 30, 2011</u>
Cost of products sold	\$ 15	\$ 14
Operating expenses	5	6
Total	<u>\$ 20</u>	<u>\$ 20</u>

During the quarter ended January 30, 2011, we recorded \$4 million in intangible assets with a weighted-average amortization period of 14 years in conjunction with an acquisition. See Note 3. "Acquisition."

Based on the amount of intangible assets subject to amortization at January 30, 2011, the expected amortization expense for each of the next five fiscal years and thereafter is as follows (in millions):

<u>Fiscal Year</u>	<u>Amount</u>
2011 (remainder)	\$ 58
2012	77
2013	77
2014	77
2015	76
2016	59
Thereafter	133
	<u>\$ 557</u>

The weighted-average amortization periods remaining by intangible asset category at January 30, 2011 were as follows (in years):

<b>Amortizable intangible assets:</b>	
Purchased technology	9
Customer and distributor relationships	8
Other	23

## 5. Borrowings

Our borrowings as of October 31, 2010 and January 30, 2011 consist of the following (in millions):

	October 31, 2010	January 30, 2011
Notes:		
11 <sup>7</sup> / <sub>8</sub> % Senior Subordinated Notes due 2015	\$ 230	\$ —
	230	—
Less: Current portion of long-term debt	230	—
Long-term debt	<u>\$ —</u>	<u>\$ —</u>

### Debt Repayments

During the quarter ended January 31, 2010, we redeemed the remaining \$318 million aggregate principal amount of our 10<sup>1</sup>/<sub>8</sub>% Senior Notes due December 1, 2013, or senior fixed rate notes, and the remaining \$46 million aggregate principal amount of our Senior Floating Rate Notes due June 1, 2013, or senior floating rate notes. We redeemed the senior fixed rate notes and senior floating rate notes at a 5.063% premium of the principal amount and no premium, respectively, plus accrued interest, resulting in a loss on extinguishment of debt of \$24 million, which consisted of a \$16 million premium and an \$8 million write-off of debt issuance costs and other related expenses.

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

### Senior Credit Facility

As of January 30, 2011, we had a revolving senior secured credit facility in the amount of \$350 million which includes borrowing capacity available for letters of credit and for borrowings and is available to us and certain of our subsidiaries in U.S. dollars and other currencies. As of January 30, 2011, we had no borrowing amounts outstanding under the revolving credit facility, although we had \$11 million of letters of credit outstanding under the facility, which reduces the amount available for borrowings under the revolving credit facility on a dollar-for-dollar basis.

## 6. Fair Value

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

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

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

Level 2—Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. We did not have any Level 2 asset or liability activities during the quarter ended January 30, 2011.

Level 3—Level 3 inputs are unobservable inputs for the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date. Level 3 assets and liabilities include cost method investments, goodwill, amortizable intangible assets, and property, plant and equipment, which are measured at fair value using a discounted cash flow approach when they are impaired. We did not have any Level 3 asset or liability activities during the quarter ended January 30, 2011.

## [Table of Contents](#)

### Assets Measured at Fair Value on a Recurring Basis

The table below sets forth by level our financial assets that were accounted for at fair value as of January 30, 2011. The table does not include cash on hand and also does not include assets that are measured at historical cost or any basis other than fair value (in millions).

	Portion of Carrying Value Measured at Fair Value as of January 30, 2011	Fair Value Measurement as of January 30, 2011 Using Quoted Prices In Active Market For Identical Assets (Level 1)
Money Market Funds (1)	\$ 100	\$ 100
Time deposits (1)	87	87
Investment Funds — Deferred Compensation Plan Assets (2)	4	4
Total assets measured at fair value	<u>\$ 191</u>	<u>\$ 191</u>

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

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

During the quarter ended January 30, 2011, there were no material transfers between Level 1 and Level 2 fair value instruments.

### Assets Measured at Fair Value on a Nonrecurring Basis

There were no nonfinancial assets or liabilities measured at fair value as of January 30, 2011.

### Fair Value of Other Financial Instruments

The following table presents the carrying amounts and fair values of financial instruments as of October 31, 2010 and January 30, 2011 (in millions):

	October 31, 2010		January 30, 2011	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Fixed rate debt	\$ 230	\$ 247	\$ —	\$ —

The fair values of cash and cash equivalents, trade accounts receivable, accounts payable and accrued liabilities, to the extent the underlying liability will be settled in cash, approximate carrying values because of the short-term nature of these instruments. The fair value of our long-term debt is based on quoted market rates.

## 7. Shareholders' Equity

We filed a prospectus supplement, dated December 6, 2010, with the SEC relating to sale of 25,000,000 of our ordinary shares by certain of our shareholders in a registered public offering, or the December Offering. This transaction closed on December 10, 2010 and 25,000,000 shares were sold to the public at a price of \$25.35 per share including a \$0.35 per share discount to the underwriters. We did not receive any proceeds from the sale of shares sold in the December Offering other than proceeds from options exercised by a shareholder in connection with the sale of shares by the shareholder in the December Offering.

## [Table of Contents](#)

We filed a prospectus supplement, dated January 18, 2011, with the SEC relating to sale of 25,000,000 of our ordinary shares by certain of our shareholders in a registered public offering, or the January Offering. This transaction closed on January 21, 2011 and 25,000,000 shares were sold to the public at a price per share of \$27.75 including a \$0.50 per share discount to the underwriters. We did not receive any proceeds from the sale of shares sold in the January Offering other than proceeds from options exercised by a shareholder in connection with the sale of shares by the shareholder in the January Offering.

### **Dividends**

In December 2010, we paid our first interim cash dividend of \$0.07 per share, or \$17 million in total.

### **Share-Based Compensation**

The following table summarizes share-based compensation expense related to share-based awards granted to employees, directors, and non-employees for the quarters ended January 31, 2010 and January 30, 2011 (in millions):

	Quarter Ended	
	January 31, 2010	January 30, 2011
Cost of products sold	\$ —	\$ 1
Research and development	1	3
Selling, general and administrative	4	3
Total share-based compensation expense	<u>\$ 5</u>	<u>\$ 7</u>

The weighted-average assumptions utilized for our Black-Scholes valuation model for options and Employee Share Purchase Plan, or ESPP, rights granted during the quarters ended January 31, 2010 and January 30, 2011 are as follows:

	Options		ESPP
	Quarter Ended		Quarter Ended
	January 31, 2010	January 30, 2011	January 30, 2011
Risk-free interest rate	2.6%	1.7%	0.2%
Dividend yield	0%	0.7%	0%
Volatility	47.0%	45.0%	42%
Expected term (in years)	5.0	5.0	0.5

The dividend yield of zero, for the quarter ended January 31, 2010 is based on the fact that we had no intention to pay cash dividends as of the respective option grant dates. The dividend yield for the quarter ended January 30, 2011 is based on the yield as of the respective option grant dates. Expected volatility is based on the combination of historical volatility of guideline publicly traded companies over the period commensurate with the expected life of the options and the implied volatility of guideline publicly traded companies from traded options with a term of 180 days or greater measured over the last three months. The risk-free interest rate is derived from the average U.S. Treasury Strips rate during the period, which approximates the rate in effect at the time of grant. Our computation of expected term was based on data, such as the data of peer companies and company-specific attributes that we believe could affect employees' exercise behavior.

Based on the above assumptions, the weighted-average fair values of the options granted under the share option plans for the quarters ended January 31, 2010 and January 30, 2011 were \$7.00 and \$10.10, respectively.

Based on our historical experience of pre-vesting option cancellations, for the quarters ended January 31, 2010 and January 30, 2011 we have assumed an annualized forfeiture rate of 11% and 8%, respectively, for measuring compensation expense associated with unvested options outstanding during those quarters. A forfeiture rate was not applied to our expense related to our ESPP due to the immateriality of expense. We will record additional expense if actual forfeitures are lower than we estimated, and will record a recovery of prior expense if actual forfeitures are higher than we estimated.

Total compensation cost related to unvested options as of January 30, 2011 was \$79 million, which is expected to be recognized over the remaining weighted-average service period of 3 years.

## [Table of Contents](#)

### **Share Option Plans**

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

	Awards Outstanding				
	Awards Available for Grant	Number Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance as of October 31, 2010	14	23	\$ 11.50	7.41	\$ 307
Granted	—*	—*	\$ 26.06		
Exercised	—	(3)	\$ 6.48		
Cancelled	—*	—*	\$ 14.96		
Balance as of January 30, 2011	14	20	\$ 12.39	7.45	\$ 311
Vested as of January 30, 2011		6	\$ 7.64	5.82	\$ 125
Vested and expected to vest as of January 30, 2011		18	\$ 12.09	7.33	\$ 294

\* Amounts less than one million shares

The following table summarizes the ranges of outstanding and exercisable awards as of January 30, 2011 (in millions, except years and per share amounts):

Exercise Prices	Awards Outstanding			Awards Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
\$0.00-5.00	4	4.81	\$ 4.90	3	\$ 4.98
5.01-10.00	2	7.85	\$ 9.15	1	\$ 8.56
10.01-15.00	8	7.27	\$ 11.77	2	\$ 11.12
15.01-20.00	2	8.85	\$ 17.59	—	\$ 16.53
20.01-25.00	4	9.50	\$ 20.54	—	\$ —
Total	20	7.45	\$ 12.39	6	\$ 7.64

### **Employee Share Purchase Plan**

The first offering period started in the fourth quarter of fiscal year 2010 and ends in the second quarter of fiscal year 2011; therefore, no shares had been issued under the ESPP as at January 30, 2011.

## **8. Income Taxes**

For the quarter ended January 30, 2011, we recorded an income tax provision of \$1 million compared to \$4 million for the quarter ended January 31, 2010. The decrease of tax expense in the quarter ended January 30, 2011 is primarily due to the recognition of a tax benefit as a result of U.S. legislation enacted in the first quarter of fiscal year 2011 retroactively reinstating the research and development tax credit.

## **9. Segment Information**

ASC 280 "Segment Reporting," or ASC 280, establishes standards for the way public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information

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

## **10. Related Party Transactions**

### *Kohlberg Kravis Roberts & Co., or KKR, and Silver Lake Partners, or Silver Lake*

As of January 30, 2011, KKR and Silver Lake together, the Sponsors, through their investments in Bali Investments S.à.r.l., indirectly owned approximately 30.7% of our shares.

### *Capstone Consulting*

Capstone Consulting, or Capstone, an affiliate of KKR was granted options to purchase 800,000 ordinary shares with an exercise price of \$5.00 per share on February 3, 2006. These options were no longer subject to variable accounting as 700,000 of the option shares vested by the end of the first quarter of fiscal year 2010 and performance targets related to the remaining 100,000 option shares were not met and these 100,000 options shares did not vest. During the first quarter of fiscal year 2011, 84,746 option shares and 84,357 option shares were exercised and sold in the December Offering and January Offering, respectively, leaving 307,948 option shares vested by the end of first quarter of fiscal year 2011, which were subsequently exercised in the second quarter of fiscal year 2011.

### *Bali Investments S.à.r.l, Seletar Investments Pte. Ltd. and Geyser Investment Pte. Ltd.*

In connection with a secondary offering in January 2010, selling shareholders Bali Investments S.à.r.l, Geyser Investments Pte. Ltd. and Seletar Investment Pte. Ltd. agreed to reimburse the Company for certain expenses of that offering.

### *Flextronics*

Mr. James A. Davidson, a director, also serves as a director of Flextronics International Ltd., or Flextronics. In the ordinary course of business, we sell certain of our products to Flextronics.

### *Hewlett-Packard Company*

Mr. John R. Joyce, a director until March 26, 2010, also serves as a director of Hewlett-Packard Company. In the ordinary course of business, we sell certain of our products to Hewlett-Packard Company. We also use Hewlett-Packard Company as a service provider for information technology services.

### *PMC Sierra, Inc.*

Mr. James Diller, a director and the chairman of our board of directors, also serves on the board of directors of PMC Sierra, Inc., or PMC Sierra, as vice-chairman. In the ordinary course of business, we sell certain of our products to PMC Sierra.

### *Unisteel Technology Limited*

Funds affiliated with KKR own substantially all the outstanding shares of in Unisteel Technology Limited or Unisteel. We purchased certain materials from Unisteel, in the ordinary course of business.

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



## [Table of Contents](#)

	Quarter Ended	
	January 31, 2010	January 30, 2011
Net revenue:		
Flextronics	\$ 35	\$ 28
Hewlett-Packard Company <sup>1</sup>	6	—
Operating expenses:		
Hewlett-Packard Company <sup>1</sup>	\$ 2	\$ —
Capstone (Share-based compensation)	—*	—
Unisteel Technology Limited	—*	—*
	October 31, 2010	January 30, 2011
Receivables:		
Flextronics	\$ 13	\$ 13
Seletar Investments Pte. Ltd.	—*	—
	October 31, 2010	January 30, 2011
Payables:		
KKR	\$ —*	\$ —
Silver Lake	—*	—
Unisteel Technology Limited	—*	—*

\* Represents amounts less than \$0.5 million.

<sup>1</sup> Amounts represent net revenue and operating expense transactions with Hewlett-Packard Company through the quarter ended January 31, 2010. Hewlett-Packard ceased to be a related party after the second quarter of fiscal year 2010.

## 11. Commitments and Contingencies

### Commitments

*Purchase Commitments.* At January 30, 2011, we had unconditional purchase obligations of \$56 million for fiscal year 2011 and none thereafter. These unconditional purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

*Debt.* Estimated future interest expense payments related to our revolving credit facility at January 30, 2011 were \$1 million for the remainder of fiscal year 2011 and none thereafter. Estimated future interest expense payments include payments on our commitment fees and letter of credit fees. See Note 5. "Borrowings."

There were no other substantial changes to our contractual commitments during the first quarter of fiscal year 2011 from those disclosed in our Annual Report on Form 10-K for fiscal year 2010.

### Contingencies

From time to time, we are involved in litigation that we believe is of the type common to companies engaged in our line of business, including commercial disputes and employment issues. As of the date of this filing, we are not involved in any pending legal

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

In addition, on February 8, 2010, PixArt Imaging Inc. filed an action against us in the U.S District Court, Northern District of California seeking a determination of whether PixArt is licensed to use our portfolio of patents for optical finger navigation products pursuant to an existing cross-license agreement between us and PixArt, which license is limited to optical mouse and optical mouse trackball products. We did not license to PixArt our patents for optical finger navigation products. We intend to defend this action vigorously and to seek to have the scope of the cross-license agreement properly construed by the court as excluding such products. We also filed a counterclaim against PixArt on March 31, 2010, asserting that PixArt has breached the terms of the cross-license agreement between the parties. We are seeking a determination that PixArt is not licensed to use our portfolio of patents for optical finger navigation products, damages in an unspecified amount, termination for breach, or rescission, of the license agreement and attorneys fees.

On March 15, 2010 we filed a patent infringement action against ST Microelectronics NV in the Eastern District of Texas for infringement of four of our patents related to optical navigation devices. We amended the complaint on July 6, 2010 adding infringement of a fifth optical navigation related patent to the action. We are seeking injunctive relief, damages in an unspecified amount, treble damages for willful infringement and attorneys fees. In response, ST Microelectronics filed a patent infringement action against us in the Northern District of Texas alleging that our sales of certain optical navigation devices infringed two ST Microelectronics' patents. ST Microelectronics is seeking injunctive relief and damages in an unspecified amount. ST Microelectronics filed a second suit against us on November 5, 2010 in the Northern District of California alleging certain anticompetitive actions by us in the optical navigation sensor market. ST Microelectronics is seeking injunctive and compensatory relief under the Sherman Act and the Clayton Act and Attorneys fees. On January 4, 2011, we filed a motion to dismiss ST Microelectronics' claims relating to anticompetitive actions by us. We intend to defend these lawsuits vigorously, and future actions may include the assertion by us of additional claims or counterclaims against ST Microelectronics related to our intellectual property portfolio.

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

## **Warranty**

Commencing in the second quarter of fiscal year 2008, we notified certain customers of a product quality issue and began taking additional steps to correct the quality issue and work with affected customers to determine potential costs covered by our warranty obligations. We maintain insurance coverage for product liability and have been working with our insurance carriers to determine the extent of covered losses in this situation. Based on settlements with customers to date, the status of discussions with other affected customers and discussions with our insurance carriers, we recorded a charge of \$2 million during the fourth quarter of fiscal year 2009 to cover costs relating to this quality issue in excess of expected insurance coverage. We continue to have discussions with affected customers and presently believe that amounts we have recorded in our financial statements along with expected insurance coverage proceeds will be adequate to resolve these claims, although this assessment is subject to change based on the ultimate resolution of this matter with customers and the insurance carriers. In addition, if the timing of settlement of claims with customers and the timing of determination of insurance recoveries do not occur in the same reporting periods, there could be material increases in charges to the

consolidated statement of operations in a future period and decreases in a subsequent period once insurance recoveries are deemed probable of realization.

During fiscal year 2009 we identified another product quality issue with a particular component, took steps to correct the quality issue and notified our customers. Though the expected failure rate of the product was not 100%, based on our quality tests, we have offered to replace all such components used or still held by our customers. We recorded charges of \$6 million during fiscal year 2009 related to this product quality issue, based on the progress of discussions with our customers and our evaluation of the best estimate of our exposure related to this matter, which covered costs to scrap inventory of such components held by us and costs associated with providing replacement parts to customers. During fiscal year 2010, we recorded additional charges of \$11 million to cover customer claims for reimbursements of costs incurred by such customers related to this product quality issue and also during fiscal year 2010, we reached final settlement agreements with certain customers on this product quality issue. The final settlement amounts approximate the estimated accrued warranty obligations for those customers. In addition, we made \$2 million of cash settlement payments in connection with these agreements during fiscal year 2010, resulting in a \$2 million decrease in the warranty accrual for this product quality issue during the same period. During the first quarter of fiscal year 2011, we reached final settlement agreements with certain customers and made \$1 million of cash settlement payments in connection with these agreements, resulting in a \$1 million decrease in the warranty accrual for this product quality issue during the same period. We presently believe that amounts we have recorded in our financial statements will be adequate to resolve any warranty obligations related to this issue, although this assessment is subject to change based on the ultimate resolution of this matter with remaining customers. We continue to have discussions with affected customers on the matter and although we have made our best estimate of the expected warranty obligation based on available information, we could record further charges in future periods based on the ultimate resolution of this matter with such customers.

### ***Indemnifications to Hewlett-Packard and Agilent***

Agilent Technologies, Inc. has given multiple indemnities to Hewlett-Packard Company in connection with its activities prior to its spin-off from Hewlett-Packard Company in June 1999 for the businesses that constituted Agilent prior to the spin-off. As the successor to the Semiconductor Products Group, or SPG, business of Agilent, we have acquired responsibility for indemnifications related to assigned intellectual property agreements. Additionally, when we completed the acquisition of SPG from Agilent in December 2005, we provided indemnities to Agilent with regard to Agilent's conduct of the SPG business prior to the SPG acquisition. In our opinion, the fair value of these indemnifications is not material.

### ***Other Indemnifications***

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

## **12. Subsequent Events**

We filed a prospectus supplement, dated February 28, 2011, with the SEC relating to sale of 25,000,000 of our ordinary shares by certain of our shareholders in a registered public offering, or the February Offering. This transaction closed on March 4, 2011. We did not receive any proceeds from the sale of shares sold in the February Offering.

On March 9, 2011, the board of directors of Avago Technologies Limited declared an interim cash dividend on its ordinary shares of \$0.08 per share, payable on March 30, 2011 to shareholders of record at the close of business (5:00 p.m.), Eastern Time, on March 18, 2011.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended October 31, 2010, or fiscal year 2010, included in our Annual Report on Form 10-K for fiscal year 2010, or 2010 Annual Report on Form 10-K. References to "Avago" "we", "our" and "us" are to Avago Technologies Limited and its consolidated subsidiaries, unless otherwise specified or the context otherwise requires. This Quarterly Report on Form 10-Q may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, which are made under the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, any projections of financial information; any statements about historical results that may suggest trends for our business; any statements of the plans, strategies, and objectives of management for future operations; any statements of expectation or belief regarding future events, technology developments, our products, product sales, expenses, liquidity, cash flow and growth rates, or enforceability of our intellectual property rights and related litigation expenses; and any statements of assumptions underlying any of the foregoing. These forward-looking statements are based on current expectations, estimates, forecasts and projections of future Avago or industry performance based on management's judgment, beliefs, current trends and market conditions and involve risks and uncertainties that may cause actual results to differ materially from those contained in the forward-looking statements. Accordingly, we caution you not to place undue reliance on these statements. For example, there can be no assurance that our product sales efforts, revenues or expenses will meet any expectations or follow any trend(s), or that our ability to compete effectively will be successful or yield anticipated results. Important factors that could cause actual results to differ materially from our expectations are disclosed under "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q, and in other documents we file from time to time with the Securities and Exchange Commission, or SEC. We undertake no intent or obligation to publicly update or revise any of these forward-looking statements, whether as a result of new information, future events or otherwise.

**Overview**

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

**Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles in the United States, or GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. Our critical accounting policies are those that affect our historical financial statements materially and involve difficult, subjective or complex judgments by management. Those policies include revenue recognition, valuation of long-lived assets, intangible assets and goodwill, inventory valuation and warranty reserves, accounting for income taxes and share-based compensation.

There have been no significant changes in our critical accounting policies during the quarter ended January 30, 2011 compared to those previously disclosed in "Critical Accounting Policies and Estimates" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2010 Annual Report on Form 10-K.

## Results from Operations

### Quarter Ended January 30, 2011 Compared to Quarter Ended January 31, 2010

The following tables set forth our results of operations for the quarters ended January 30, 2011 and January 31, 2010.

	Quarter Ended			
	January 31, 2010	January 30, 2011	January 31, 2010	January 30, 2011
	(In millions)		(As a percentage of net revenue)	
<b>Statement of Operations Data:</b>				
Net revenue	\$ 456	\$ 550	100%	100%
Cost of products sold:				
Cost of products sold	247	265	54	48
Amortization of intangible assets	15	14	3	3
Total cost of products sold	262	279	57	51
Gross margin	194	271	43	49
Research and development	64	73	14	13
Selling, general and administrative	46	50	10	9
Amortization of intangible assets	5	6	2	1
Restructuring charges	1	0	0	0
Total operating expenses	116	129	26	23
Income from operations	78	142	17	26
Interest expense	(11)	(3)	(2)	(1)
Loss on extinguishment of debt	(24)	(19)	(6)	(3)
Other income (expense), net	(1)	0	0	0
Income before income taxes	42	120	9	22
Provision for income taxes	4	1	1	—
Net income	\$ 38	\$ 119	8%	22%

*Net revenue.* Net revenue was \$550 million for the quarter ended January 30, 2011, compared to \$456 million for the quarter ended January 31, 2010, an increase of \$94 million or 21%. Net revenue increased primarily due to strength in the industrial and automotive electronics and wireless communications target markets in the quarter ended January 30, 2011. The increase in net revenue was also due to significantly improved general economic conditions in the quarter ended January 30, 2011, compared to the corresponding period in 2010, as well as gains in market share in our three largest target markets.

## [Table of Contents](#)

Our three largest target markets, by revenue, are wireless communications, industrial and automotive electronics and wired infrastructure, with computer and consumer computing peripherals typically representing a much smaller percentage of our overall net revenues. The percentage of total net revenues generated by sales into each of our target market varies from quarter to quarter, due largely to fluctuations in end-market demand, including the effects of seasonality. The first fiscal quarter is typically our lowest revenue and cash generating quarter due, in part, to holiday shut downs at many OEM customers and distributors, and we saw a return to this typical seasonality during the first quarter of fiscal year 2011. In addition, towards the end of calendar 2010 we believe that production at many semiconductor companies had grown faster than end market demand, resulting in increased inventory levels at some OEMs and distributors. We believe some customers may have made inventory adjustments during the first quarter of fiscal year 2011 as a result of this.

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

% of net revenue	Quarter Ended		Change
	January 31, 2010	January 30, 2011	
Wireless communications	38%	37%	(1)%
Industrial and automotive electronics	26	30	4
Wired infrastructure	26	28	2
Consumer and computing peripherals	10	5	(5)
Total net revenue	100%	100%	

Net revenue (in millions)	Quarter Ended		Change
	January 31, 2010	January 30, 2011	
Wireless communications	\$ 173	\$ 202	\$ 29
Industrial and automotive electronics	117	166	49
Wired infrastructure	120	153	33
Consumer and computing peripherals	46	29	(17)
Total net revenue	\$ 456	\$ 550	\$ 94

Net revenue from wireless communications products, in absolute dollars, increased in the first quarter of the fiscal year 2011 compared with the corresponding prior year period due to continued strength in mobile handset sales. The growth of key platforms in next-generation smart phones at leading OEM customers, which incorporate many of our proprietary products such as 3G front-end modules, as well as increased demand for our proprietary optical finger navigation devices, drove this revenue growth.

Net revenue from industrial and automotive electronics products, in absolute dollars, increased substantially in the first quarter of fiscal year 2011 compared with the corresponding prior year period. The increase was in large part due to the effects of a recovery in market conditions. The growth in this target market was broad based, with particular strength in sales of optocouplers, industrial fiber optic transceivers and motion encoders. We benefited from increased spending on and new uses for our devices in applications such as inverters, servo machine tools, factory automation and infrastructure applications including renewable energy, smart power grid installations and transportation, as well as gains in market share for a number of these products.

Net revenue from wired infrastructure products increased, in absolute dollars, in the first quarter of fiscal year 2011 compared with the corresponding prior year period, as spending on enterprise networking data centers and core routing improved. We also introduced a number of parallel fiber optic transceivers and designed new ASICs in the first quarter of fiscal year 2011, compared with the corresponding prior year period, which contributed to the increase in revenue.

Net revenue from consumer and computing peripheral products decreased, in absolute dollars, in the first quarter of fiscal year 2011 compared with the corresponding period in 2010, reflecting decline in sales of optical sensors and sales of motion encoders used in applications such as optical disc drives in the first quarter of fiscal year 2011 as customers worked through excessive inventory levels.

**Gross margin.** Gross margin was \$271 million for the quarter ended January 30, 2011 compared to \$194 million for the quarter ended January 31, 2010, an increase of \$77 million or 40%. As a percentage of net revenue, gross margin increased to 49% for the quarter ended January 30, 2011 from 43% for the quarter ended January 31, 2010. The increase in gross margin percentage was attributable to continuing improvements in product mix. During the quarter ended January 30, 2011, compared to the quarter ended January 31, 2010, a higher proportion of our net revenues were from products sold into the industrial and automotive electronics target

## [Table of Contents](#)

market and from sales of our proprietary products, which generally earn higher margins than our other products. During the quarter ended January 30, 2011, gross margin also benefited from strong non-recurring engineering, or NRE, revenue. During the quarter ended January 31, 2010, we also recorded a charge of \$5 million to cover potential costs for warranty obligations arising out of a certain product quality issue identified in the second quarter of fiscal year 2009, as more fully discussed in Note 11 to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

*Research and development.* Research and development expense was \$73 million for the quarter ended January 30, 2011, compared to \$64 million for the quarter ended January 31, 2010, an increase of \$9 million or 14%. As a percentage of net revenue, research and development expenses decreased slightly to 13% for the quarter ended January 30, 2011 from 14% for the quarter ended January 31, 2010. The increase in absolute dollars was primarily attributable to \$3 million in additional research and development project support materials and supplies, a \$2 million increase in salary expense resulting from our annual salary review and adjustment, a \$1 million increase in outside services expense and \$1 million increase in share-based compensation expense due to grants of share-based awards at higher fair market values, partially offset by a \$1 million reduction of incentive compensation expense related to our final payments of employee bonuses for fiscal year 2010 as compared to the quarter ended January 31, 2010.

*Selling, general and administrative.* Selling, general and administrative expense was \$50 million for the quarter ended January 30, 2011 compared to \$46 million for the quarter ended January 31, 2010, an increase of \$4 million or 9%. As a percentage of net revenue, selling, general and administrative decreased slightly to 9% for the quarter ended January 30, 2011 compared to 10% for the quarter ended January 31, 2010. The increase in absolute dollars was primarily attributable to a \$2 million increase in salary expense resulting from our annual salary review and adjustment and \$2 million increase in legal expenses related to offensive litigation matters initiated in fiscal year 2010, partially offset by a \$2 million reduction of incentive compensation expense related to our final payments of employee bonuses for fiscal year 2010 as compared to the quarter ended January 31, 2010.

*Amortization of intangible assets.* Total amortization of intangible assets incurred was \$20 million each for the quarters ended January 30, 2011 and January 31, 2010.

*Restructuring charges.* During the quarter ended January 30, 2011, we incurred no restructuring charges, compared to total restructuring charges of \$1 million for the quarter ended January 31, 2010. The decrease in total restructuring charges for the quarter ended January 30, 2011 compared to the quarter ended January 31, 2010 was due to our remaining restructuring activities in fiscal year 2010 in response to the then macroeconomic business conditions.

*Interest expense.* Interest expense was \$3 million for the quarter ended January 30, 2011, compared to \$11 million for the quarter ended January 31, 2010, which represents a decrease of \$8 million or 73%. The decrease was primarily due to the redemption of the remaining \$230 million aggregate principal amount of our outstanding notes in the quarter ended January 30, 2011.

*Gain (loss) on extinguishment of debt.* During the quarter ended January 30, 2011, we redeemed \$230 million aggregate principal amount of our senior subordinated notes. The redemption of the senior subordinated notes resulted in a loss on extinguishment of debt of \$19 million. During the quarter ended January 31, 2010, we redeemed \$318 million aggregate principal amount of our senior fixed rate notes and the remaining \$46 million aggregate principal amount of our senior floating rate notes. The redemption of the senior fixed rate notes and senior floating rate notes resulted in a loss on extinguishment of debt of \$24 million. See Note 5 to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

*Other income (expense), net.* Other income (expense), net includes interest income, currency gains (losses) on balance sheet remeasurement and other miscellaneous items. Other income, net was less than \$1 million for the quarter ended January 30, 2011 compared to other expense, net of \$1 million for the quarter ended January 31, 2010.

*Provision for income taxes.* We recorded income tax expense of \$1 million for the quarter January 30, 2011 and compared to \$4 million for the quarter ended January 31, 2010. The decrease is primarily due to the recognition of a tax benefit as a result of U.S. legislation enacted in the first quarter of fiscal year 2011 retroactively reinstating the research and development tax credit to 2010.

## **Backlog**

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

## **Seasonality**

We are affected by seasonal trends in the semiconductor and related industries. We typically experience sequentially lower revenues in the first fiscal half of the year. Our revenue in the second half of the fiscal year is typically higher than our revenue in the first half of the fiscal year due to seasonality in two of our target markets, consumer and computing peripherals and wireless



communications. These target markets typically experience seasonality due to the “back to school” and calendar year end holiday selling seasons.

## Liquidity and Capital Resources

Our primary sources of liquidity as at January 30, 2011, consisted of: (1) approximately \$363 million in cash and cash equivalents, (2) cash we expect to generate from operations and (3) our \$350 million revolving credit facility, which is committed until December 1, 2011, of which \$339 million is available to be drawn (after taking into account \$11 million of letters of credit outstanding under the facility). We are actively negotiating a new credit agreement, with a view to replacing our existing revolving credit facility prior to its expiration in December 2011. However, we may be unable to negotiate a replacement revolving credit facility on acceptable terms or at all. In addition, on March 9, 2011, our board of directors declared an interim cash dividend of \$0.08 per ordinary share, payable on March 30, 2011 to shareholders of record at the close of business (5:00 p.m.), Eastern Time, on March 18, 2011.

Our short-term and long-term liquidity requirements primarily arise from: (i) working capital requirements and (ii) capital expenditures, including acquisitions from time to time. We may seek to obtain debt or equity financing in the future. However, we cannot assure that such additional financing will be available on terms acceptable to us or at all.

Our ability to service any indebtedness we may incur under our current revolving credit facility or any new revolving credit facility will depend on our ability to generate cash in the future. We may not have significant cash available to meet any large unanticipated liquidity requirements, other than from available borrowings, if any, under our revolving credit facility. As a result, we may not retain a sufficient amount of cash to finance growth opportunities, including acquisitions, or unanticipated capital expenditures or to fund our operations. If we do not have sufficient cash for these purposes, our financial condition and our business could suffer.

In December 2010, we paid \$258 million for the redemption of our remaining \$230 million senior subordinated notes at a redemption price of 105.938% of their principal amount, and accrued and unpaid interest thereon up to, but not including, the redemption date. In addition, in December 2010, we paid our first interim cash dividend of \$0.07 per share, or approximately \$17 million in total.

We anticipate that our capital expenditures for fiscal year 2011 will be higher than for fiscal year 2010 due to spending on mask sets for new ASIC designs and capacity expansion in both our Fort Collins, Colorado and Singapore internal fabrication facilities. We believe that our cash and cash equivalents on hand, and cash flows from operations, combined with availability under our revolving credit facility, will provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for at least the next 12 months.

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

	Quarter Ended	
	January 31, 2010	January 30, 2011
Net cash provided by operating activities	\$ 41	\$ 67
Net cash used in investing activities	(9)	(41)
Net cash used in financing activities	(360)	(224)
Net decrease in cash and cash equivalents	<u>\$ (328)</u>	<u>\$ (198)</u>

### Cash Flows for the Quarter Ended January 30, 2011 and January 31, 2010

#### Operating Activities

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

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

Inventory increased to \$203 million at January 30, 2011 from \$189 million at the end of fiscal year 2010. The number of days of inventory on hand increased to 70 days at January 30, 2011 compared to 61 days at October 31, 2010. We use the current quarter cost



of products sold in our calculation of days on hand of inventory. In order to secure adequate supply of certain components to meet expected increases in demand, in fiscal year 2010 we entered into purchase commitments with suppliers of certain components. Scheduled deliveries of these components during the fourth quarter of fiscal year 2010 and the first quarter of fiscal year 2011 resulted in a higher level of parts in inventory at the end of the first quarter of fiscal year 2011.

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

Net cash provided by operating activities during the quarter ended January 31, 2010 was \$41 million. The net cash provided by operating activities was principally due to net income of \$38 million and non-cash charges of \$54 million, offset by changes in operating assets and liabilities of \$51 million. The non-cash charges of \$54 million included \$39 million for depreciation and amortization, \$8 million of debt issuance costs written off in connection with our debt redemption in December 2010 and \$5 million of share-based compensation. Net income was also reduced by \$16 million for the premium paid on our debt redemption which is included in the \$24 million loss on extinguishment of debt in the unaudited condensed consolidated statement of operations.

Accounts receivable at the end of the first quarter of fiscal year 2010 increased by \$17 million, or 9%, from the amount at the end of fiscal year 2009. The number of days sales outstanding increased slightly to 41 days at January 31, 2010 from 40 days at November 1, 2009. We use the current quarter revenue in our calculation of number of days sales outstanding.

Inventory increased to \$166 million at January 31, 2010 from \$162 million at the end of fiscal year 2009. Inventory days on hand slightly decreased from 62 days at November 1, 2009 to 61 days at January 31, 2010. We use the current quarter cost of products sold in our calculation of days of hands of inventory.

Current liabilities decreased from \$633 million at the end of fiscal year 2009 to \$248 million at the end of the first quarter of fiscal year 2010 mainly due to the redemption of \$364 million of long-term debt that was classified as current at November 1, 2009 (as it had been irrevocably called for redemption before the fiscal year end) and decreases in employee compensation and benefit accruals and accrued interest. Accounts payable increased by \$6 million or 4% from fiscal year 2009 mainly due to timing of disbursements. The decrease in employee compensation and benefit accruals from November 1, 2009 is attributable to our payments under employee bonus plans in respect of fiscal year 2009 performance. Accrued interest decreased \$20 million or 80% from fiscal year 2009 mainly due to the debt redemption and semi-annual interest payments made during the first quarter of fiscal year 2010.

#### Investing Activities

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

Net cash used in investing activities for the quarter ended January 31, 2010 was \$9 million, due to purchases of property, plant and equipment of \$9 million.

#### Financing Activities

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

Net cash used in financing activities for the quarter ended January 31, 2010 was \$360 million. The net cash used in financing activities was principally due to the redemption of \$318 million in principal amount of senior fixed rate notes and \$46 million principal amount of senior floating rate notes, partially offset by \$4 million provided by the issuance of ordinary shares.

#### **Indebtedness**

As of January 30, 2011, we had \$7 million of capital lease obligations. At such date, we had an additional \$339 million of borrowing capacity available under our revolving credit facility (after taking into account \$11 million of outstanding letters of credit, which reduce the amount available for borrowings under our revolving credit facility on a dollar for dollar basis).

## **Contractual Commitments**

*Purchase Commitments.* At January 30, 2011, we had unconditional purchase obligations of \$56 million for fiscal year 2011 and none thereafter. These unconditional purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

*Debt.* Estimated future interest expense payments related to our revolving credit facility at January 30, 2011 were \$1 million for the remainder of fiscal year 2011 and none thereafter. Estimated future interest expense payments consist of commitment fees and letter of credit fees pursuant to our senior credit agreement. See Note 5 to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

There were no other substantial changes to our contractual commitments during the first quarter of fiscal year 2011 from those disclosed in our 2010 Annual Report on Form 10-K.

## **Off-Balance Sheet Arrangements**

We had no material off-balance sheet arrangements at January 30, 2011 as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

## **Indemnifications**

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

## **Accounting Changes and Recent Accounting Standards**

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

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

There have been no material changes in market risk from the information presented in Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk," in our 2010 Annual Report on Form 10-K other than those noted below.

### *Foreign Currency Derivative Instruments*

Losses from foreign currency transactions, as well as derivative instruments, were included in our unaudited consolidated statements of operations in the amounts of less than \$1 million and \$1 million, for the quarters ended January 30, 2011 and January 31, 2010, respectively.

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

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, evaluated the effectiveness of our disclosure controls and procedures as of January 30, 2011. We maintain disclosure controls and procedures that are intended to ensure that the information required to be disclosed in our Exchange Act filings is properly and timely recorded, processed, summarized and reported. These disclosure controls and procedures are also intended to ensure that information is accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures. Based on this evaluation, our CEO and CFO concluded that, as of January 30, 2011, our disclosure controls and procedures were effective at the reasonable assurance level.

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

(b) *Changes in Internal Controls Over Financial Reporting.* There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

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

In addition, on February 8, 2010, PixArt Imaging Inc. filed an action against us in the U.S District Court, Northern District of California seeking a determination of whether PixArt is licensed to use our portfolio of patents for optical finger navigation products pursuant to an existing cross-license agreement between us and PixArt, which license is limited to optical mouse and optical mouse trackball products. We did not license to PixArt our patents for optical finger navigation products. We intend to defend this action vigorously and to seek to have the scope of the cross-license agreement properly construed by the court as excluding such products. We also filed a counterclaim against PixArt on March 31, 2010, asserting that PixArt has breached the terms of the cross-license agreement between the parties. We are seeking a determination that PixArt is not licensed to use our portfolio of patents for optical finger navigation products, damages in an unspecified amount, termination for breach, or rescission, of the license agreement and attorneys fees.

On March 15, 2010 we filed a patent infringement action against ST Microelectronics NV in the Eastern District of Texas for infringement of four of our patents related to optical navigation devices. We amended the complaint on July 6, 2010 adding infringement of a fifth optical navigation related patent to the action. We are seeking injunctive relief, damages in an unspecified amount, treble damages for willful infringement and attorneys fees. In response, ST Microelectronics filed a patent infringement action against us in the Northern District of Texas alleging that our sales of certain optical navigation devices infringed two ST Microelectronics' patents. ST Microelectronics is seeking injunctive relief and damages in an unspecified amount. ST Microelectronics filed a second suit against us on November 5, 2010 in the Northern District of California alleging certain anticompetitive actions by us in the optical navigation sensor market. ST Microelectronics is seeking injunctive and compensatory relief under the Sherman Act and the Clayton Act and attorneys fees. On January 4, 2011, we filed a motion to dismiss ST Microelectronics' claims relating to anticompetitive actions by us. We intend to defend these lawsuits vigorously, and future actions may include the assertion by us of additional claims or counterclaims against ST Microelectronics related to our intellectual property portfolio.

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

## Item 1A. Risk Factors

A description of the risk factors associated with our business is set forth below. We review and, where applicable, update our risk factors each quarter. The description set forth below supersedes the description of the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended October 31, 2010. These risk factors, which could materially affect our business, financial conditions or results of operations, are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also adversely affect our business, financial condition or results of operations.

### Risks Related to Our Business

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

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change and price erosion, evolving technical standards, short product life cycles (for semiconductors and for the end-user products in which they are used) and wide fluctuations in product supply and demand. From time to time, these and other factors, together with changes in general economic conditions, cause significant upturns and downturns in the industry in general and in our business in particular. For example, the global semiconductor market experienced substantial declines in 2001 and 2009, in each case beyond the declines experienced in the typical cycles experienced by the semiconductor industry, due in large part to deteriorating global economic conditions during those periods. Periods of industry downturns, including the recent economic downturn, have been characterized by diminished demand for end-user products, high inventory levels and periods of inventory adjustment, underutilization of manufacturing capacity, changes in revenue mix and accelerated erosion of average selling prices, resulting in, an adverse effect on our business, financial condition and results of operations. Furthermore, poor or worsening global economic conditions may cause reductions in customer spending and could lead to the insolvency of key suppliers resulting in product delays, customer insolvencies, and also counterparty failures that may negatively impact our treasury operations, all of which may negatively affect our business, results of operations and financial condition. We expect our business to continue to be subject to cyclical downturns even when overall economic conditions are relatively stable.

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

Our revenues and operating results have fluctuated in the past and are likely to fluctuate in the future. These fluctuations may occur on a quarterly and annual basis and are due to a number of factors, many of which are beyond our control. These factors include, among others:

- changes in end-user demand for the products manufactured and sold by our customers;
- the timing of receipt, reduction or cancellation of significant orders by customers;
- fluctuations in the levels of component inventories held by our customers;
- the gain or loss of significant customers;
- market acceptance of our products and our customers' products;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- the timing and extent of product development costs;
- new product announcements and introductions by us or our competitors;
- incurrence of research and development and related new product expenditures;
- seasonality or cyclical fluctuations in our markets;
- currency fluctuations;
- utilization of our internal manufacturing facilities;
- fluctuations in manufacturing yields;

## Table of Contents

- significant warranty claims, including those not covered by our suppliers or our insurers;
- availability and cost of raw materials from our suppliers;
- changes in our product mix or customer mix;
- intellectual property disputes;
- loss of key personnel or the shortage of available skilled workers;
- the effects of competitive pricing pressures, including decreases in average selling prices of our products; and
- changes in our tax incentive arrangements or structure, which may adversely affect our net tax expense in any quarter in which such an event occurs.

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

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

The semiconductor industry is subject to constant and rapid changes in technology, frequent new product introductions, short product life cycles, rapid product obsolescence and evolving technical standards. Technological developments may reduce the competitiveness of our products and require unbudgeted upgrades that could be expensive and time consuming to implement. Our products could become obsolete sooner than we expect because of faster than anticipated, or unanticipated, changes in one or more of the technologies related to our products. Furthermore, we continually evaluate expenditures for research and development and must choose among alternative technologies based on our expectations of future market growth and other factors. We may be unable to develop and introduce new or enhanced products that satisfy customer requirements and achieve market acceptance in a timely manner or at all, the technologies where we have focused our research and development expenditures may not become commercially successful, and we may be unable to anticipate new industry standards and technological changes. We also may not be able to respond successfully to new product announcements and introductions by competitors. If we fail to adapt successfully to technological changes or fail to obtain access to important new technologies, we may be unable to retain customers, attract new customers or sell new products to our existing customers.

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

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

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

## [Table of Contents](#)

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

Much of our outsourcing takes place in developing countries, and as a result may additionally be subject to geopolitical uncertainty. See “— Our business, financial condition and results of operations could be adversely affected by the political and economic conditions of the countries in which we conduct business and other factors related to our international operations.”

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

Although we operate using a primarily outsourced manufacturing business model, we do rely on the manufacturing facilities we own, in particular our fabrication facilities in Fort Collins, Colorado and Singapore. We maintain our internal fabrication facilities for products utilizing our innovative materials and processes, to protect our intellectual property and to develop the technology for manufacturing. A prolonged disruption or material malfunction of, interruption in or the loss of operations at one or more of our production facilities, especially our Fort Collins and Singapore facilities, or the failure to maintain our labor force at one or more of these facilities, would limit our capacity to meet customer demands and delay new product development until a replacement facility and equipment, if necessary, were found. The lease on our primary internal fabrication facility in Singapore expires in 2015. If we are unable to renew this lease on satisfactory terms, we would be required to locate suitable replacement premises, with the goal of ensuring a smooth transition between facilities on or prior to the expiration of our current lease. However, the replacement of this, or any other, manufacturing facility could take an extended amount of time and significant expenditures on our part before manufacturing operations could restart. While we would seek to minimize any disruption to our operations and supply chain associated with any such changes in manufacturing facilities, we may experience delays and significant costs resulting from these steps, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

***Winning business is subject to lengthy, competitive selection processes that require us to incur significant expense. Even if we begin a product design, a customer may decide to cancel or change its product plans, which could cause us to generate no revenues from a product and adversely affect our results of operations.***

We are focused on winning competitive bid selection processes, known as “design wins,” to develop semiconductors for use in our customers' products. These selection processes are typically lengthy and can require us to incur significant design and development expenditures and dedicate scarce engineering resources in pursuit of a single customer opportunity. We may not win the competitive selection process and may never generate any revenue despite incurring significant design and development expenditures. These risks are exacerbated by the fact that many of our products will likely have very short life cycles. Failure to obtain a design win sometimes prevents us from offering an entire generation of a product. This can result in lost revenues and could weaken our position in future competitive selection processes.

After winning a product design, we may experience delays in generating revenue from our products as a result of the lengthy development cycle typically required. In addition, a delay or cancellation of a customer's plans could materially and adversely affect our financial results, as we may have incurred significant expense in the design process and generated no revenue. Finally, our customers' failure to successfully market and sell their products could reduce demand for our products and materially adversely affect our business, financial condition and results of operations.

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

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

Claims that our products or processes infringe or misappropriate these rights, regardless of their merit or resolution, are frequently costly and divert the efforts and attention of our management and technical personnel. In addition, many of our customer agreements and in some cases our asset sale agreements require us to indemnify our customers or purchasers for third-party intellectual property infringement claims, which have required and may in the future require that we defend those claims, and might require that we pay damages in the case of adverse rulings. Claims of this sort could also harm our relationships with our customers and might deter future customers from doing business with us. We do not know whether we will prevail in such proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If any pending or future proceedings result in an adverse outcome, we could be required to:

- cease the manufacture, use or sale of the infringing products, processes or technology;
- pay substantial damages for past, present and future use of the infringing technology;
- expend significant resources to develop non-infringing technology;
- license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all;
- enter into cross-licenses with our competitors, which could weaken our overall intellectual property portfolio;
- indemnify customers or distributors;
- pay substantial damages to our customers or end users to discontinue use or replace infringing technology with non-infringing technology; or
- relinquish intellectual property rights associated with one or more of our patent claims, if such claims are held invalid or otherwise unenforceable.

Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations.

***We utilize a significant amount of intellectual property in our business. If we are unable to protect our intellectual property, our business could be adversely affected.***

Our success depends in part upon our ability to protect our intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, copyrights, trademarks, service marks, trade secrets and similar intellectual property, as well as customary contractual protections with our customers, suppliers, employees and consultants, and through security measures to protect our trade secrets. We may be required to spend significant resources to monitor and protect our intellectual property rights and there can be no assurance that, even with significant expenditures, we will be able to protect our intellectual property rights. We are unable to predict that:

- any of the patents and pending patent applications, trademarks, copyrights, trade secrets, know-how or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged, or, in the case of third-party intellectual property rights, licensed or sub-licensed to us, be licensed to others



## [Table of Contents](#)

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

In addition, our competitors or others may develop products or technologies that are similar or superior to our products or technologies, duplicate our products or technologies or design around our protected technologies. Effective patent, trademark, copyright and trade secret protection may be unavailable or more limited in one or more relevant jurisdictions, relative to those protections available in the United States, or may not be applied for in one or more relevant jurisdictions. Moreover, from time to time we pursue litigation to assert our intellectual property rights, including, in some cases, against third parties with whom we have ongoing relationships, such as customers and suppliers, and third parties may pursue litigation against us. For example, we have filed suit against ST Microelectronics N.V., or ST Microelectronics, in which, we are seeking a judgment that they have infringed five of our patents relating to optical navigation devices and they have counter-filed against us alleging that certain of our optical navigation devices infringe two of their patents, among other things. See Part II, Item 1. “Legal Proceedings” above for additional information regarding this dispute. An adverse decision in such types of legal action could limit our ability to assert our intellectual property rights and limit the value of our technology, including the loss of opportunities to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others. In addition, such legal actions or adverse decisions could otherwise negatively impact our business, financial condition and results of operations.

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

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

The global semiconductor market is highly competitive. We compete in different target markets to various degrees on the basis of, among other things, quality, technical performance, price, product features, product system compatibility, system-level design capability, engineering expertise, responsiveness to customers, new product innovation, product availability, delivery timing and reliability, and customer sales and technical support. Current and prospective customers for our products evaluate our capabilities against the merits of our direct competitors. Some of our competitors are well established, have a more extensive product portfolio, have substantially greater market share and manufacturing, financial, research and development and marketing resources to pursue development, engineering, manufacturing, marketing and distribution of their products. In addition, many of our competitors have longer independent operating histories, greater presence in key markets, more comprehensive patent protection and greater name recognition. We compete with integrated device manufacturers, or IDMs, and fabless semiconductor companies as well as the internal resources of large, integrated OEMs. Our competitors range from large, international companies offering a wide range of semiconductor products to smaller companies specializing in narrow markets. We expect competition in the markets in which we participate to continue to increase as existing competitors improve or expand their product offerings. In addition, companies not currently in direct competition with us may introduce competing products in the future. Because our products are often building block semiconductors providing functions that in some cases can be integrated into more complex integrated circuits, or ICs, we also face competition from manufacturers of ICs, as well as customers that develop their own IC products. The competitive landscape is changing as a result of an increasing trend of consolidation within the industry, as some of our competitors have merged with or been acquired by other competitors while others have begun collaborating with each other. We expect this consolidation trend to continue.

Our ability to compete successfully depends on elements both within and outside of our control, including industry and general economic trends. During past periods of downturns in our industry, competition in the markets in which we operate intensified as manufacturers of semiconductors reduced prices in order to combat production overcapacity and high inventory levels. The actions of our competitors, particularly in the area of pricing, can have a substantial adverse impact on our revenues, and potentially on revenues in specific industry end markets. In periods where the semiconductor industry experiences significant declines, manufacturers in financial difficulties or in bankruptcy may implement pricing structures designed to ensure short-term market share and near-term survival, rather than securing long-term viability. In addition, many of our competitors have substantially greater financial and other resources than us with which to withstand adverse economic or market conditions and any associated pricing actions of other market participants in the future.

***We may be unable to make the substantial and productive research and development investments which are required to remain competitive in our business.***



The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. In order to remain competitive, we anticipate that we will need to maintain or increase our levels of research and development expenditures, and we expect research and development expenses to increase in absolute dollars for the foreseeable future, due to the increasing complexity and number of products we plan to develop. We do not know whether we will have sufficient resources to maintain or increase the level of investment in research and development required to remain competitive. In addition, we cannot assure you that the technologies where we have focused our research and development expenditures will become commercially successful. If we are required to invest significantly greater resources than anticipated in our research and development efforts without a corresponding increase in revenue, our operating results could decline.

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

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

***If we are unable to attract, train and retain qualified personnel, especially our design and technical personnel, we may not be able to execute our business strategy effectively.***

Our future success depends on our ability to retain, attract and motivate qualified personnel, including our management, sales and marketing, legal and finance, and especially our design and technical personnel. We do not know whether we will be able to retain all of these employees as we continue to pursue our business strategy. We have historically encountered difficulties in hiring and retaining qualified engineers because there is a limited pool of engineers with expertise in analog and optoelectronic semiconductor design. Competition for such personnel is intense in the semiconductor industry. As the source of our technological and product innovations, our design and technical personnel represent a significant asset. The loss of the services of key employees, especially our key design and technical personnel, or our inability to retain, attract and motivate qualified design and technical personnel, could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to warranty claims, product recalls and product liability.***

We are currently, and from time to time may be, subject to warranty or product liability claims that have lead, and may in the future lead, to significant expenses as we compensate affected customers for costs incurred related to product quality issues. For example, in the second quarter of 2009 we identified a product quality issue with a particular component that we took steps to correct, including notifying our customers and offering to replace such components. We are continuing our discussions with affected customers regarding this issue, and have compensated or otherwise rectified the issue with many of those customers. As at October 31, 2010, we have recorded \$17 million in charges associated with this issue, including \$11 million in fiscal year 2010, and may incur additional charges as we continue to work with our customers to resolve the matter.

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

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

Highly complex products such as the products that we offer, may contain defects and bugs when they are first introduced or as new versions are released, or their release may be delayed due to unforeseen difficulties during product development. We have in the past experienced, and may in the future experience, these defects, bugs and delays. If any of our products contain defects or bugs, or have reliability, quality or compatibility problems, we may not be able to successfully design workarounds. Consequently, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers, attract new customers, and our financial results. In addition, these defects or bugs could interrupt or delay sales to

our customers. To resolve these problems, we may have to invest significant capital and other resources. Although our products are tested by our suppliers, our customers and ourselves, it is possible that our new products will contain defects or bugs. If any of these problems are not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others. For example, if a delay in the manufacture and delivery of our products causes the delay of a customer's product delivery, we may be required, under the terms of our agreement with that customer, to compensate the customer for the adverse effects of such delays. In addition, these problems may divert our technical and other resources from other development efforts, and we would likely lose, or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers. As a result, our financial results could be materially and adversely affected.

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

We make significant decisions, including determining the levels of business that we will seek and accept, production schedules, levels of reliance on contract manufacturing and outsourcing, personnel needs and other resource requirements, based on our estimates of customer requirements. The short-term nature of commitments by many of our customers and the possibility of rapid changes in demand for their products reduces our ability to accurately estimate future customer requirements. Our results of operations could be harmed if we are unable to adjust our supply chain volume to address market fluctuations, including those caused by the seasonal or cyclical nature of the markets in which we operate. The sale of our products is dependent, to a large degree, on customers whose industries are subject to seasonal or cyclical trends in the demand for their products. For example, the consumer electronics market is particularly volatile and is subject to seasonality related to the holiday selling season, making demand difficult to anticipate. On occasion, customers may require rapid increases in production, which can challenge our resources and reduce margins. During a market upturn, we may not be able to purchase sufficient supplies or components, or secure sufficient contract manufacturing capacity, to meet increasing product demand, which could harm our reputation, prevent us from taking advantage of opportunities and reduce revenue growth. In addition, some parts are not readily available from alternate suppliers due to their unique design or the length of time necessary for design work.

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

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

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

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

Changes in exchange rates will result in increases or decreases in our costs and earnings, and may also affect the book value of our assets located outside the United States and the amount of our equity. Although we seek to minimize our currency exposure by engaging in hedging transactions where we deem it appropriate, we do not know whether our efforts will be successful.

***Our operating results and financial condition could be harmed if the markets into which we sell our products decline.***

Visibility into our markets is limited. As was the case in the recent economic downturn, any decline in our customers' markets would likely result in a reduction in demand for our products and make it more difficult to collect on outstanding amounts due to us. For example, if the Asian market does not continue to grow as anticipated or if the semiconductor market declines, our results of operations will likely suffer. In such an environment, pricing pressures could intensify and, if we were unable to respond quickly, could significantly reduce our gross margins. To the extent we cannot offset recessionary periods or periods of reduced growth that

may occur in these markets through increased market share or otherwise, our net revenue may decline and our business, financial condition and results of operations may suffer. Pricing pressures and competition are especially intense in semiconductor-related industries, which could prevent achievement of our long-term financial goals and could require us to implement additional cost-cutting measures. Furthermore, industry growth rates may not be as forecasted, which could result in us spending on process and product development well ahead of market requirements, which in turn could have a material adverse effect on our business, financial condition and results of operations.

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

Some of our customers are material to our business and results of operations. During fiscal year 2010, no customer accounted for 10% or more of our net revenue, but our top 10 customers, which included five distributors, collectively accounted for 55% of our net revenue. During the first quarter of fiscal year 2011, no customer accounted for 10% or more of our net revenue, and our top 10 customers, which included three distributors, collectively accounted for 52% of our net revenue. We believe our top customers' purchasing power has given them the ability to make greater demands on their suppliers, including us. We expect this trend to continue, which we expect will result in our results of operations becoming increasingly sensitive to deterioration in the financial condition of, or other adverse developments related to, one or more of our significant customers. Although we believe that our relationships with our major customers are good, we generally do not have long-term contracts with any of them, which is typical of our industry. As a result, although our customers provide indications of their product needs and purchases on an annual basis, they generally purchase our products on a weekly or daily basis and the relationship, as well as particular orders, can be terminated at any time. The loss of any of our major customers, or any substantial reduction in sales to any of these customers, could have a material adverse effect on our business, financial condition and results of operations.

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

We either obtain the products we need for our business from third-party contract manufacturers or we obtain the materials we need for our products from suppliers, some of which are our single source suppliers for these materials. We purchase a significant portion of our semiconductor materials and finished goods from a few suppliers and contract manufacturers. For fiscal year 2010, we purchased 54% of the materials for our manufacturing processes from eight suppliers. For the first quarter of fiscal year 2011, we purchased 55% of the materials for our manufacturing process from seven suppliers. Substantially all of our purchases are on a purchase order basis, and we have not generally entered into long-term contracts with our contract manufacturers or suppliers. In the event that these purchase orders or relationships with suppliers are terminated, we cannot obtain sufficient quantities of raw materials at reasonable prices, the quality of the material deteriorates, we fail to satisfy our customers' requirements or we are not able to pass on higher materials or energy costs to our customers, our business, financial condition and results of operations could be adversely impacted.

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

We use third-party contractor manufacturers for most of our manufacturing activities, primarily for wafer fabrication and module assembly and test services. Our agreements with these manufacturers typically require us to forecast product needs, commit to purchase services consistent with these forecasts and may require other commitments in the early stages of the relationship. Our operations could be adversely affected in the event that these contractual relationships were disrupted or terminated, the cost of such services increased significantly, the quality of the services provided deteriorated, our forecasts proved to be materially incorrect or capacity is consumed by our competitors.

***We rely on third parties to provide corporate infrastructure services necessary for the operation of our business. Any failure of one or more of our vendors to provide these services could have a material adverse effect on our business.***

We rely on third-party vendors to provide critical corporate infrastructure services, including, among other things, certain services related to accounting, billing, human resources, information technology, or IT, network development and network monitoring. We depend on these vendors to ensure that our corporate infrastructure will consistently meet our business requirements. The ability of these third-party vendors to successfully provide reliable, high quality services is subject to technical and operational uncertainties that are beyond our control. While we may be entitled to damages if our vendors fail to perform under their agreements with us, our agreements with these vendors limit the amount of damages we may receive. In addition, we do not know whether we will be able to collect on any award of damages or that any such damages would be sufficient to cover the actual costs we would incur as a result of any vendor's failure to perform under its agreement with us. Any failure of our corporate infrastructure could have a material adverse effect on our business, financial condition and results of operations. Upon expiration or termination of any of our agreements with

third-party vendors, we may not be able to replace the services provided to us in a timely manner or on terms and conditions, including service levels and cost, that are favorable to us and a transition from one vendor to another vendor could subject us to operational delays and inefficiencies until the transition is complete.

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

Our gross margin is highly dependent on product mix, with proprietary products and products sold into our industrial and automotive target market typically providing higher gross margin than other products. A shift in sales mix away from our higher margin products could adversely affect our future gross margin percentages. In addition, semiconductor manufacturing requires significant capital investment, leading to high fixed costs, including depreciation expense. Although we outsource a significant portion of our manufacturing activities, we do retain some semiconductor fabrication facilities. If we are unable to utilize our owned fabrication facilities at a high level, the fixed costs associated with these facilities will not be fully absorbed, resulting in higher average unit costs and lower gross margins. In the past, we have experienced periods where our gross margins declined due to, among other things, reduced factory utilization resulting from reduced customer demand, reduced selling prices and a change in product mix towards lower margin devices. Increased competition and the existence of product alternatives, more complex engineering requirements, lower demand and other factors may lead to further price erosion, lower revenues and lower margins for us in the future.

***Our business, financial condition and results of operations could be adversely affected by the political and economic conditions of the countries in which we conduct business and other factors related to our international operations.***

We sell our products throughout the world. In addition, as at January 30, 2011, approximately 67% of our employees are located outside of the United States. Multiple factors relating to our international operations and to particular countries in which we operate could have a material adverse effect on our business, financial condition and results of operations. These factors include:

- changes in political, regulatory, legal or economic conditions;
- restrictive governmental actions, such as restrictions on the transfer or repatriation of funds and foreign investments and trade protection measures, including export duties and quotas and customs duties and tariffs;
- disruptions of capital and trading markets;
- changes in import or export licensing requirements;
- transportation delays;
- civil disturbances or political instability;
- geopolitical turmoil, including terrorism, war or political or military coups;
- changes in labor standards;
- limitations on our ability under local laws to protect our intellectual property;
- nationalization of businesses and expropriation of assets;
- changes in tax laws;
- currency fluctuations, which may result in our products becoming too expensive for foreign customers or foreign-sourced materials and services becoming more expensive for us; and
- difficulty in obtaining distribution and support.

A majority of our products are produced and sourced in Asia, including in China, Malaysia, the Philippines, Singapore, Taiwan and Thailand. Any conflict or uncertainty in these countries, including due to political or civil unrest or public health or safety concerns could have a material adverse effect on our business, financial condition and results of operations. In addition, if the government of any country in which our products are manufactured or sold sets technical standards for products manufactured in or imported into their country that are not widely shared, it may lead certain of our customers to suspend imports of their products into that country, require manufacturers in that country to manufacture products with different technical standards and disrupt cross-border manufacturing relationships which, in each case, could have a material adverse effect on our business, financial condition and results of operations.

In addition, our subsidiaries may require future equity-related financing, and any capital contributions to certain of our subsidiaries may require the approval of the relevant authorities in the jurisdiction in which the subsidiary is incorporated. The approvals are required from the investment commissions or similar agency of the particular jurisdiction and relate to any initial or additional equity investment by foreign entities in local corporations. Our failure to obtain the required approvals and our resulting inability to provide such equity-related financing or capital contributions could have an adverse effect on our business, financial condition and results of operations.

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

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

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

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

Our interpretations and conclusions regarding the tax incentives are not binding on any taxing authority, and if our assumptions about tax and other laws are incorrect or if these tax incentives are substantially modified or rescinded we could suffer material adverse tax and other financial consequences, which would increase our expenses, reduce our profitability and adversely affect our cash flows. In addition, taxable income in any jurisdiction is dependent upon acceptance of our operational practices and intercompany transfer pricing by local tax authorities as being on an arm's length basis. Due to inconsistencies in application of the arm's length standard among taxing authorities, as well as lack of adequate treaty-based protection, transfer pricing challenges by tax authorities could, if successful, substantially increase our income tax expense. We are subject to, and are under, audit in various jurisdictions, and such jurisdictions may assess additional income tax against us. Although we believe our tax positions are reasonable, the final determination of tax audits could be materially different from our recorded income tax provisions and accruals. The ultimate results of an audit could have a material adverse effect on our operating results or cash flows in the period or periods for which that determination is made.

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

Tax bills are introduced from time to time to reform U.S. taxation of international business activities. Depending on the final form of legislation enacted, if any, these consequences may be significant for us due to the large scale of our international business activities. If any of these proposals are enacted into legislation, they could have material adverse consequences on the amount of tax we pay and thereby on our financial position and results of operations.

***We may pursue acquisitions, dispositions, investments and joint ventures, which could affect our results of operations.***

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

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

Any acquisition may also cause us to assume liabilities, acquire goodwill and non-amortizable intangible assets that will be subject to impairment testing and potential impairment charges, incur amortization expense related to certain intangible assets, increase our expenses and working capital requirements, and subject us to litigation, which would reduce our return on invested capital. Failure to manage and successfully integrate the acquisitions we make could materially harm our business and operating results.

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

***Our business is subject to various governmental regulations, and compliance with these regulations may cause us to incur significant expenses. If we fail to maintain compliance with applicable regulations, we may be forced to recall products and cease their manufacture and distribution, and we could be subject to civil or criminal penalties.***

Our business is subject to various significant international and U.S. laws and other legal requirements, including packaging, product content, labor and import/export regulations. These regulations are complex, change frequently and have generally become more stringent over time. We may be required to incur significant expenses to comply with these regulations or to remedy violations of these regulations. Any failure by us to comply with applicable government regulations could result in cessation of our operations or portions of our operations, product recalls or impositions of fines and restrictions on our ability to conduct our operations. In addition, because many of our products are regulated or sold into regulated industries, we must comply with additional regulations in marketing our products.

Our products and operations are also subject to the rules of industrial standards bodies, like the International Standards Organization, as well as regulation by other agencies, such as the U.S. Federal Communications Commission. If we fail to adequately address any of these rules or regulations, our business could be harmed.

We must conform the manufacture and distribution of our semiconductors to various laws and adapt to regulatory requirements in all countries as these requirements change. If we fail to comply with these requirements in the manufacture or distribution of our products, we could be required to pay civil penalties, face criminal prosecution and, in some cases, be prohibited from distributing our products commercially until the products or component substances are brought into compliance.

***We are subject to environmental, health and safety laws, which could increase our costs, restrict our operations and require expenditures that could have a material adverse affect on our results of operations and financial condition.***



## [Table of Contents](#)

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

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

In addition to the costs of complying with environmental, health and safety requirements, we may in the future incur costs defending against environmental litigation brought by government agencies and private parties. We may be defendants in lawsuits brought by parties in the future alleging environmental damage, personal injury or property damage. A significant judgment against us could harm our business, financial condition and results of operations.

In the last few years, there has been increased media scrutiny and associated reports focusing on a potential link between working in semiconductor manufacturing clean room environments and certain illnesses, primarily different types of cancers. Regulatory agencies and industry associations have begun to study the issue to see if any actual correlation exists. Because we utilize clean rooms, we may become subject to liability claims. In addition, these reports may also affect our ability to recruit and retain employees.

We cannot predict:

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

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

During fiscal year 2009, we pursued a number of restructuring initiatives designed to reduce costs and increase revenue across our operations, in large part due to the global economic downturn and related decline in demand for our customers' products. These initiatives included significant workforce reductions in certain areas as we realigned our business, establishing certain operations closer in location to our global customers, evaluating functions more efficiently performed through partnerships or other outside relationships and steps to attempt to further reduce our overhead costs. As a result of these initiatives, we incurred restructuring charges of \$34 million in fiscal year 2009 and \$4 million in fiscal year 2010.

We may be required to take additional charges in the future as we continue to evaluate our operations and cost structures relative to general economic conditions, market demands, cost competitiveness, and our geographic footprint as it relates to our customers' production requirements. We cannot assure you as to the timing or amount of any future restructuring charges. If we are required to take additional restructuring charges in the future, our operating results, financial condition, and cash flows may be adversely impacted. Additionally, there are other potential risks associated with our restructurings that could adversely affect us, such as delays encountered with the finalization and implementation of the restructuring activities, work stoppages, and the failure to achieve targeted cost savings.

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

We sell many of our products to customers through distributors who maintain their own inventory of our products for sale to dealers and end users. We recognize revenues for sales to distributors upon delivery to the distributor. We limit distributor return rights and we allow limited price adjustments on sales to distributors. We provide reserves for distributor rights related to these limited stock returns and price adjustments. Sales to distributors accounted for 41% and 38% of our net revenue for fiscal year 2010 and the first quarter of fiscal year 2011, respectively.

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

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

Our reserve estimates associated with products stocked by our distributors are based largely on reports that our distributors provide to us on a monthly basis. To date, we believe this data has been generally accurate. To the extent that this resale and channel inventory data is inaccurate or not received in a timely manner, we may not be able to make reserve estimates for future periods accurately or at all.

***We rely on third-party distributors and manufacturers' representatives, as well as our employee sales representatives, and the failure of these representatives to perform as expected could reduce our future sales.***

We sell many of our products to customers through distributors and manufacturers' representatives, as well as through our employee sales representatives. We are unable to predict the extent to which our distributors and manufacturers' representatives will be successful in marketing and selling our products. Moreover, many of our distributors and manufacturers' representatives and distributors also market and sell competing products. Our relationships with our representatives and distributors may be terminated by either party at any time. As part of a change in strategy, in order to more effectively manage sales representatives performance, in 2010 we terminated our relationships with a substantial number of our manufacturing representatives in the United States and have replaced them with additional employee representatives. We continue to evaluate our sales strategy and may make further changes in the future, which may include terminating additional manufacturing representatives. Our future performance will depend, in part, on our ability to attract additional distributors or manufacturers' representatives that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products, and on our ability to effectively transition sales efforts from our terminated U.S. manufacturing representatives to our employee sales representatives. If we cannot retain our current distributors or manufacturers' representatives or recruit additional or replacement distributors or manufacturers' representatives, or effectively manage the transition from our terminated U.S. manufacturing representatives to our employee sales representatives, our sales and operating results will be harmed.

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

The products we develop and sell are used for high volume applications. As a result, the prices of those products have historically decreased rapidly. Gross profits on our products may be negatively affected by, among other things, pricing pressures from our customers, and the proportion of sales of our wireless and other products into consumer application markets, which are highly competitive and cost sensitive. In the past, we have reduced the average selling prices of our products in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. Our gross profits and financial results will suffer if we are unable to offset any reductions in our average selling prices by increasing our sales volumes, reducing manufacturing costs, or developing new and higher value-added products on a timely basis.

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

We are required to assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly, as required by Section 404 of the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act. Even though our system of internal controls has achieved compliance with Section 404, we need to maintain our processes and systems and adapt them as our business changes and we rearrange management responsibilities and reorganize our business accordingly. This continuous process of maintaining and adapting our internal controls and complying with Section 404 is expensive, time-consuming and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404. Furthermore, as our business changes and as we acquire other companies, our internal controls may become more complex and we may require more resources to ensure they remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses in our internal controls, the disclosure of that fact, even if quickly remedied, may cause investors to lose confidence in our financial statements and the trading price of our ordinary shares may decline.



Remediation of a material weakness could require us to incur significant expense and if we fail to remedy any material weakness, our financial statements may be inaccurate, our ability to report our financial results on a timely and accurate basis may be adversely affected, our access to the capital markets may be restricted, the trading price of our ordinary shares may decline, and we may be subject to sanctions or investigation by regulatory authorities, including the SEC or The Nasdaq Global Select Market. We may also be required to restate our financial statements from prior periods.

***Our indebtedness could adversely affect our financial health and our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and imposes significant restrictions on our business.***

We have a \$350 million revolving credit facility of which \$339 million is currently available for borrowings. Borrowings under our senior credit agreement are secured by substantially all of our assets. Subject to restrictions in our senior credit agreement, we may incur additional indebtedness. Our ability to borrow under the credit facility expires on December 1, 2011.

If we were to borrow substantial amounts under our revolving credit facility or otherwise incur significant additional indebtedness, it could have important consequences including:

- increasing our vulnerability to adverse general economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts, execution of our business strategy, payment of dividends and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in the economy and the semiconductor industry and placing us at a competitive disadvantage compared to our competitors with less indebtedness; and
- making it more difficult to borrow additional funds in the future to fund working capital, capital expenditures and other purposes.

In addition, our senior credit agreement contains a number of covenants imposing significant restrictions on our business, including limitations on our ability to make investments and acquisitions and sell assets, as well as requiring us to meet a financial ratio test. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise.

The breach of covenants or restrictions in our credit agreement could result in a default under the agreement. If we are unable to repay amounts due under the credit facility when due or in the event of a default, the lenders under our senior credit agreement could proceed against the collateral securing that debt. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations. While we are actively negotiating a new credit agreement with a view to replacing our existing revolving credit facility on or prior to its expiration in December 2011, we may be unable to negotiate a new revolving credit facility on acceptable terms or at all.

#### **Risks Relating to Investments in Singapore Companies**

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

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

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

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

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

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

Under Singapore law, we may only allot and issue new ordinary shares with the prior approval of our shareholders in a general meeting. At our 2010 annual general meeting of shareholders, our shareholders provided our directors with the general authority to allot and issue any number of new ordinary shares until the earlier of (i) the conclusion of our 2011 annual general meeting, (ii) the expiration of the period within which the next annual general meeting is required to be held (i.e., within 15 months from the conclusion of the last general meeting) or (iii) the subsequent revocation or modification of such general authority by our shareholders acting at a duly noticed and convened meeting. At our 2011 annual general meeting of shareholders, scheduled to occur on March 30, 2011, we plan to ask our shareholders to provide us with similar general authority to allot and issue new ordinary shares until our 2012 annual general meeting of shareholders or the date by which it is required by law to be held, unless earlier revoked by our shareholders. Subject to the general authority to allot and issue new ordinary shares provided by our shareholders, the provisions of the Singapore Companies Act and our memorandum and articles of association, our board of directors may allot and issue new ordinary shares on terms and conditions as they may think fit to impose. Any additional issuances of new ordinary shares by our directors may adversely impact the market price of our ordinary shares.

## **Risks Relating to Owning Our Ordinary Shares**

***Influence of our Sponsors could adversely affect our other shareholders.***

Investment funds affiliated with KKR and investment funds affiliated with Silver Lake together beneficially own approximately 22.1% of our outstanding ordinary shares through their ownership of Bali Investments S.à.r.l, our principal shareholder, and Seletar Investments Pte. Ltd., or Seletar, and Geyser Investment Pte. Ltd., or Geyser, beneficially own approximately 2.9% and 1.9% of our outstanding ordinary shares, respectively (based on the number of ordinary shares outstanding as of March 4, 2011). In addition, pursuant to the terms of our Second Amended and Restated Shareholder Agreement, or the Shareholder Agreement, KKR and Silver Lake, which we refer to as the Sponsors, or their respective affiliates, can elect their respective designees to serve as members of our board of directors. The Sponsors will continue to have a significant influence over our board of directors and our affairs for the foreseeable future, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets. This will limit the ability of other shareholders to influence corporate matters and, as a result, we may take actions that our non-Sponsor shareholders do not view as beneficial. For example, this concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could cause the market price of our ordinary shares to decline or prevent our shareholders from realizing a premium over the market price for their ordinary shares.

Prior to December 10, 2010 we were a “controlled company” under the rules of The Nasdaq Global Select Market, as Bali, Seletar and Geyser, together referred to as the Sponsor Group, elected to file as a group with the SEC, with respect to their collective ownership of our ordinary shares. As of December 10, 2010, the Sponsor Group ceased to own a majority of our outstanding ordinary shares, and we ceased to be a “controlled company” under the rules of The Nasdaq Global Select Market. As a result, our board of directors will be required to be composed of a majority of independent directors and our compensation committee and our nominating and corporate governance committee will be required to be comprised entirely of independent directors, subject to the applicable transition periods prescribed by The Nasdaq Global Select Market.

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

The trading price of our ordinary shares has at times fluctuated significantly since our initial public offering, or IPO, in August 2009. The trading price of our ordinary shares could be subject to wide fluctuations in response to many risk factors listed in this “Risk Factors” section, and others, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition and operating results;
- overall conditions in the semiconductor market and general economic and market conditions;

## [Table of Contents](#)

- addition or loss of significant customers;
- changes in laws or regulations applicable to our products;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements of technological innovations or competitive products by us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- issuance of new or updated research or reports by securities analysts;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- disputes or other developments related to proprietary rights, including patents, litigation matters and our ability to obtain intellectual property protection for our technologies;
- announcement of, or expectation of additional financing efforts;
- sales of our ordinary shares by us or our shareholders;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and
- changes in our dividend policy.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our ordinary shares. You may not realize any return on your investment in us and may lose some or all of your investment. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

There has been a public market for our ordinary shares for only a short period of time. An active, liquid and orderly market for our ordinary shares may not develop or be sustained, which could depress the trading price of our ordinary shares. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

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

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

As of March 4, 2011, approximately 66.3 million outstanding ordinary shares are subject to the contractual transfer restrictions in our Shareholder Agreement, which is described under "Certain Relationships and Related Party Transactions — Second Amended and Restated Shareholder Agreement — Transfer Restrictions" in the definitive proxy statement for our 2011 annual general meeting of shareholders. These shares are also subject to lock-up agreements that holders of the shares have signed with the underwriter of the secondary offering of our ordinary shares that was completed on March 4, 2011, under which they have agreed not to sell, transfer or dispose of, directly or indirectly, any shares of our ordinary shares or any securities convertible into or exercisable or exchangeable for ordinary shares without the prior written consent of Deutsche Bank Securities and Barclays Capital Inc. until March 30, 2011. The underwriters of that offering may, in their sole discretion, release all or some portion of the shares subject to the 30-day lock-up agreements prior to expiration of such period, and the Company and the Sponsors may decide to waive the restrictions in the Shareholder Agreement.

As of March 4, 2011, holders of approximately 66.3 million ordinary shares are entitled to rights with respect to registration of such shares under the Securities Act pursuant to a registration rights agreement with us. If such holders, by exercising their registration

rights, sell a large number of shares, they could adversely affect the market price for our ordinary shares. If we register the sale of additional shares to raise capital, and are required to include shares held by these holders in such registration pursuant to the exercise of their registration rights, our ability to raise capital may be impaired.

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

***There can be no assurance that we will continue to declare cash dividends or declare them in any particular amounts.***

Notwithstanding that we recently adopted a cash dividend policy, there can be no assurance that we will declare cash dividends in the future or in any particular amounts. The actual declaration and payment of any future dividend is subject to the approval of our board of directors and our dividend policy could change at any time. The payment of cash dividends is restricted under the terms of our senior credit agreement, applicable law and our corporate structure. Pursuant to Singapore law and our articles of association, no dividends may be paid except out of our profits. Also, because we are a holding company, our ability to pay cash dividends on our ordinary shares may be limited by restrictions on our ability to obtain sufficient funds through dividends from subsidiaries, including restrictions under the terms of our credit agreement. In addition to these constraints, the payment of cash dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as our earnings levels, capital requirements, contractual restrictions, cash position and overall financial condition and any other factors deemed relevant by our board of directors.

Furthermore, any such dividend, if declared, may be an interim dividend, under Singapore law, which is wholly provisional and may be revoked by our board of directors at any time prior to the payment thereof.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, listing requirements of The Nasdaq Global Select Market and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increases demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations. We may need to hire more employees in the future, which will increase our costs and expenses. Furthermore, as we grow our business or acquire new businesses, our internal controls will become more complex and we may require significantly more resources to ensure our internal controls overall remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Being a public company makes it expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on committees of our board of directors, and qualified executive officers.

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

The Singapore Code on Take-overs and Mergers contains provisions that may delay, deter or prevent a future takeover or change in control of our company for so long as we remain a public company with more than 50 shareholders and net tangible assets of

## [Table of Contents](#)

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

### ***Our actual operating results may differ significantly from our guidance.***

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

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

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it.

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

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

None.

### **Item 3. Defaults Upon Senior Securities**

None.

**Item 5. Other Information**

**2011 Annual Cash Bonus Plan for Executives and Severance Agreement**

On March 8, 2011, the Compensation Committee of the board of directors of Avago Technologies Limited, or the Board, elected to bifurcate the Company's annual cash incentive bonus plan for fiscal year 2011 for executives and for non-executives, and adopted separate plans for each of these two groups of employees. Other than as described below, the new 2011 Performance Bonus Plan for Executive Employees (including our named executive officers) remains substantially similar to the original 2011 annual cash incentive bonus plan approved by the Compensation Committee in December 2010. Under the new plan, to the extent that our Compensation Committee determines that Mr. Hock Tan, our President and Chief Executive Officer, has achieved individual performance at a level greater than 100%, the Compensation Committee may, in its discretion, elect to pay the amount of the bonus that is attributable to his individual performance in excess of 100% in the form of an equity award under our 2009 Equity Incentive Award Plan, of a type and on such terms and conditions as the Compensation Committee shall determine. The target bonus levels for our named executive officers under the plan remain the same as for Fiscal Year 2010, other than for Ms. Patricia McCall, our Vice President and General Counsel. The Compensation Committee approved an increase in Ms. McCall's target bonus level from 40% to 50% of her of base salary. The new 2011 Performance Bonus Plan for Executive Employees is filed as an exhibit to this Quarterly Report on Form 10-Q.

In addition, on March 9, 2011, upon approval of the Compensation Committee, we entered into a Severance Agreement with Bryan Ingram, Senior Vice President and General Manager, Wireless Semiconductor Division. This agreement provides Mr. Ingram with severance in the event of the termination of his employment without cause, because of death or disability or a resignation by him for good reason, provided that, in each case, Mr. Ingram executes and does not revoke a general release of all claims against us and our affiliates within 60 days of any such termination. If the termination of employment without cause, because of death or disability or resignation for good reason takes place within 12 months following a change in control, we will provide Mr. Ingram with (a) 12 months of continued salary payments commencing on the sixtieth day following his separation from us, (b) an amount equal to 100% of the lesser of Mr. Ingram's prior year's bonus or target bonus payable in 12 monthly installments commencing on the sixtieth day following his separation from us, (c) 12 months accelerated vesting for those options held by Mr. Ingram which would otherwise vest based upon the passage of time and his continued employment, and (d) the payment of continued health, dental and vision insurance premiums for Mr. Ingram and any covered dependents for 12 months, or, if earlier, until Mr. Ingram is covered under similar plans of a new employer. If Mr. Ingram's termination of employment without cause, because of death or disability or a resignation for good reason takes place other than in connection with a change in control, Mr. Ingram is entitled to (a) nine months of continued salary payments commencing on the sixtieth day following his separation from us, (b) an amount equal to the lesser of 50% of his prior year's bonus or target bonus payable in nine monthly installments commencing on the sixtieth day following his separation from us, and (c) the payment of continued health, dental and vision insurance premiums for Mr. Ingram and any covered dependents for six months, or, if earlier, until Mr. Ingram is covered under similar plans of a new employer.

### **Changes to Board of Directors**

Effective as of March 9, 2011, James A. Davidson, David M. Kerko and Bock Seng Tan resigned as members of the Board. The departure of these directors is due to a re-organization of the Board resulting from the recent secondary offerings of our ordinary shares by our sponsor shareholders. There were no disagreements between any of these directors and the Company.

Messrs. Davidson and Kerko were director designees of Silver Lake and KKR, respectively, and Mr. Bock Seng Tan was originally the director designee of Seletar. Pursuant to the terms of Avago's Second Amended and Restated Shareholder Agreement, following the sale by Bali Investments S.à.r.l. of Avago ordinary shares in a secondary offering in February 2011, Silver Lake and KKR are each currently entitled to designate only one member to the Board (prior to the offering they were each entitled to designate two directors). Seletar ceased to be entitled to designate a member to the Board following its sale of Avago ordinary shares in a secondary offering in December 2010.

Messrs. Davidson, Kerko and Bock Seng Tan were nominated for re-election to the Board at the upcoming Avago Technologies Limited Annual General Meeting of Shareholders, or the 2011 AGM, scheduled to take place on March 30, 2011. In connection with their resignations from the Board (i) each of Messrs. Davidson, Kerko and Bock Seng Tan has withdrawn as a candidate for re-election as a director at the 2011 AGM, (ii) the Board has decided not to fill the vacancies created by their resignations and no other nominees for election will be named in any of their places and (iii) in light of the valuable service Mr. Kerko provided to the Company during his tenure as a director, the Board accelerated the vesting and exercisability of 10,000 of the 30,000 unvested option shares held by him to the effective date of his resignation.

No votes received to date in respect of the re-election of Messrs. Davidson, Kerko and Bock Seng Tan at the 2011 AGM will be counted for or against the election of these directors and the proxies will not be voted in respect of their election at the 2011 AGM. The remaining seven incumbent directors named in Avago Technologies Limited's definitive proxy statement for the 2011 AGM, or the proxy statement, continue as nominees for election at the 2011 AGM. Information regarding those incumbent directors is contained in the proxy statement, which was distributed to our shareholders and filed with the SEC on February 22, 2011.

### **Dividend**

On March 9, 2011, the Board declared an interim quarterly cash dividend on its ordinary shares of \$0.08 per share, payable on March 30, 2011 to shareholders of record at the close of business (5:00 p.m.), Eastern Time, on March 18, 2011.

### **Amendment to Equity Incentive Plan for Senior Management Employees of Avago Technologies Limited and Subsidiaries (Amended and Restated Effective as of April 14, 2006)**

On March 9, 2011, the Board approved an amendment, effective immediately, to the Equity Incentive Plan for Senior Management Employees of Avago Technologies Limited and Subsidiaries, as amended and restated effective as of February 25, 2008 and as further amended on July 27, 2009, eliminating entirely (i) the call rights, rights of first refusal and bring along rights in favor of us and our controlling shareholders, and the put rights in favor of the non-employee option holder, share purchase right holder or non-employee shareholder upon such individual's death or permanent disability or, in some instances, termination of service and (ii) the restrictions on the ability of non-employee option holders, share purchase right holders or non-employee shareholders to transfer, sell or otherwise dispose of our ordinary shares prior to the fifth anniversary of the date of grant. These provisions were removed with respect to our employees by the July 2009 amendment of the plan.



## [Table of Contents](#)

### Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference Herein		Filed Herewith
		Form	Filing Date	
3.1	Memorandum and Articles of Association	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428).	August 14, 2009	
4.1	Second Amended and Restated Shareholder Agreement, dated August 11, 2009, among Avago Technologies Limited, Silver Lake Partners II Cayman, L.P., Silver Lake Technology Investors II Cayman, L.P., Integral Capital Partners VII, L.P., KKR Millennium Fund (Overseas), Limited Partnership, KKR European Fund, Limited Partnership, KKR European Fund II, Limited Partnership, KKR Partners (International), Limited Partnership, Capstone Equity Investors LLC, Avago Investment Partners, Limited Partnership, Bali Investments S.à.r.l., Seletar Investments Pte Ltd, Geyser Investment Pte. Ltd. and certain other Persons	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428).	August 14, 2009	
10.1†	Avago FY 2011 Performance Bonus Plan for Executive Employees, effective November 1, 2010			X
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			X
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
101.INS††	XBRL Instance Document			X
101.SCH††	XBRL Schema Document			X
101.CAL††	XBRL Calculation Linkbase Document			X
101.LAB††	XBRL Labels Linkbase Document			X
101.PRE††	XBRL Presentation Linkbase Document			X

† Indicates a management contract or compensatory plan or arrangement.

†† Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets at October 31, 2010 and January 30, 2011, (ii) Unaudited Condensed Consolidated Statements of Income for the quarters ended January 31, 2010 and January 30, 2011, (iii) Unaudited Condensed Consolidated Statements of Cash Flows for the quarters ended January 31, 2010 and January 30, 2011 and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.



**SIGNATURES**

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

**AVAGO TECHNOLOGIES LIMITED**

By: /s/ Douglas R. Bettinger

Douglas R. Bettinger

Senior Vice President and Chief Financial Officer

Date: March 10, 2011



**Avago Performance Bonus ("APB")  
FY2011 Plan Document for Executive Employees**

**Document: Annual  
Performance Bonus for  
Executives**

**Applicability: Executive employees (Division Vice President,  
Vice President, Senior Vice President, President and Chief  
Executive Officer ("CEO"))**

**Approved: March 8, 2011**

**Effective Date: November 1, 2010**

**Review date: Annual**

**Purpose**

The purpose and scope of the Avago Performance Bonus ("APB") Plan Document for Executive Employees is to define the process to award the annual incentive bonus and to ensure the Plan parameters are managed consistently across Avago Technologies (the "Company").

**Introduction**

The Company has established the Avago Performance Bonus ("Program") for eligible executive employees. The objectives of this discretionary Program are to:

- § Share the success of the Company
- § Reward employees for outstanding business results
- § Recognize levels of individual performance multiplier
- § Foster teamwork
- § Retain employees

**Program Period**

Incentive awards under the Program are based on Corporate performance and, where applicable, Business Division or Function performance measured against predetermined targets for each Program period. The Program period begins on the first day of each fiscal year and ends on the last day of the fiscal year.

## Eligibility

Prior to the beginning of each Program period the criteria for participation in the Program will be set by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") at its sole discretion.

Conditions of Eligibility: All regular full-time and regular part-time executive employees who are:

- Not on a Sales Incentive Plan (SIP)
- Employed before fiscal year fourth quarter
- Employed on the APB payout date
- On leave of absence ("LOA") with eligible earnings during the Program period

## Description

The performance results for the Program period are based on a weighting system comprised of Corporate performance and where applicable Business Division/Function performance.

### **Corporate Performance**

Corporate performance for the Program period will be based on the attainment of Company targets as defined for the specific fiscal year: Targets are set by the CEO and the Compensation Committee. Attainment measurements and targets are maintained by Finance.

### **Business Division or Function Performance**

Business Division or Function performance for the Program period will be based on the attainment of Business Division or Function goals. Goals are set by the CEO and the Compensation Committee. Attainment measurements and targets are maintained by Finance.

### **Program Award Determination**

The Program award payout ("Program Award") for each participant will be determined as follows.

## Definitions:

1. **Eligible Earnings:** Represents base wages paid during the performance period and includes vacation, holiday and sick pay. Eligible earnings exclude disability payments, bonus payments and allowances. Total eligible earnings for the Program period will reflect part-time status, unpaid LOA, hire date or re-hire date.
2. **Attainment %:** Payout on performance attainment for each goal between the threshold and the maximum will be determined by a linear formula.
3. **Performance Multiplier:** Based on performance each participant, other than the CEO, will be assigned a performance multiplier on a scale of 0.5 to 1.5 by the CEO, subject to the review and approval of the Compensation Committee. In the discretion of the Compensation Committee, the CEO may be assigned a performance multiplier on a scale of 0.5 to 1.5.

4. **Target Bonus Percent:** Percent of eligible earnings that will be paid if the Company and Business Division/Function attainment is 100% of goals. This percent is assigned to each executive function or individual, as determined by the CEO and the Compensation Committee.

Target Bonus Percent is prorated based on eligibility and may be prorated based on a change in an executive's function or position that results in a change in Target Bonus Percentage during the performance period.

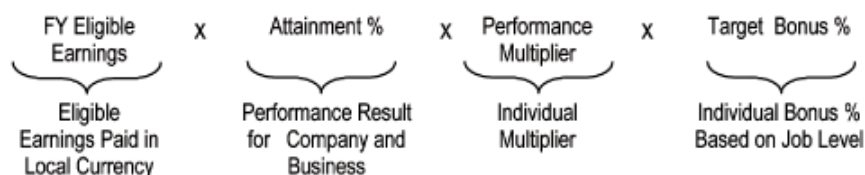
**Any exceptions require approval from both the CEO and the Compensation Committee**

## Payout

The fiscal year end payout is made in cash after the end of the fiscal year and is calculated using the payout formula based on:

- Actual attainment against fiscal year Corporate and Division/Function metrics
- Current year performance multiplier

## Payout formula



Metric	Weight	Threshold	Payout Minimum	Payout Target	Payout Maximum
Revenue Growth	25%	60% <sup>1</sup>	50%	100%	150%
Operating Profit	25%	90% <sup>1</sup>	50%	100%	150%
Business Division or Function Results (includes Direct Expenses)	50%	Division/ Function Specific <sup>2</sup>	50%	100%	150%

<sup>1</sup> To be validated by Finance each year.

<sup>2</sup> Direct Expenses have a payout range of minimum 80% to maximum 120%

In the event the Compensation Committee elects to assign the CEO a Performance Multiplier greater than 1.0, the Compensation Committee may elect to pay the portion of the CEO's bonus amount that exceeds the bonus amount calculated using a Performance Multiplier of 1.0 in the form of an equity award, instead of paying such amount in cash. The Compensation Committee shall determine the type

and terms of any such equity award, which award shall be granted under the Company's 2009 Equity Incentive Award Plan.

## Policies and Practices

Various considerations may impact the administration and payout of the Program. Such considerations may include, but are not limited to the following:

1. **Program Administration:** The Compensation Committee will establish guidelines for the Program in line with corporate strategies and objectives. The Compensation Committee has final authority as to any issues related to the interpretation and the administration of the Program, including the resolution of any unusual circumstances.
2. **Compensation Committee Discretion:** The Compensation Committee will set the Program performance targets. The Compensation Committee may, at its sole discretion, at any time alter, amend, suspend or in any other way modify the Program to align with the changing needs of the Company without prior notification to any participant.
3. **Payment Authorization:** Employees will be eligible to participate in the APB program period if they are employed before the fiscal year fourth quarter and remain employed on the payout date. All awards must be approved by the CEO and the Compensation Committee. The Program award will be paid in full, as soon as administratively feasible, following the end of a Program period.
4. **Termination:** Any employee may be excluded from Program participation, at any time, at the sole discretion of the Compensation Committee. Except as required by applicable law or regulation, in order to receive a Program award payment for the applicable Program period, an employee must be: (1) on the payroll, and (2) an eligible participant of the Program at the time of payout. Except as required by applicable law or regulation, the Company will not seek repayment of a valid bonus payout if the employee terminates employment after payment for the previous performance period.
5. **Pro-rated Payments:** Pro-rated payment will be made in cases as set forth below:
  - Position changes from non-sales to sales (on SIP) or from sales (on SIP) to non-sales.
  - Transfer between Business Divisions or Functions during the fiscal year of the performance period.
  - Termination for disability: In the event a participant terminates employment with the Company for disability reasons, such employee will be considered eligible for completed plan periods in which the employee participated.
  - Termination upon death: Upon the death of a participant, the award will be paid along with all other payouts based on eligible earnings during the Program period. Payment will be made to legal beneficiaries, as designated by the employee and on file with the Company.

6. **Right of Employment and Payment:** Management and the Compensation Committee reserves the right, at their sole discretion, to restrict participation in the Program at any time. Participation under this Program does not affect the employment status of the participant and does not imply continued employment with the Company. Either participant or Company may terminate the employment relationship at any time, for any reason, with or without cause.

Payments made under the Program are not an element of the participant's salary or base compensation ("Compensation") and shall not be considered as part of such Compensation in the event of severance, redundancy, resignation or any other situation unless required by local law. The granting and receipt of payments under the Program is voluntary and at the Compensation Committee's sole discretion, and does not constitute a claim for further payments regardless of how many times such payments have previously been granted to the participant.

7. **Unfunded Status/Right of Assignment:** No assets are reserved for this Program and no person has a right or interest in Company assets as a result of the existence of this Program. No right or interest in the Program may be assigned or transferred, or subject to any lien, directly, by operation of law or otherwise, including without limitation, bankruptcy, pledge, garnishment, attachment, levy or other creditor's process.
8. **Taxes:** All awards payable under the Program are taxable as ordinary income in the year of payment and subject to applicable taxes and withholdings. Employees on a temporary relocation are paid and taxed from their home country.
9. **Plan Amendment or Termination:** The Compensation Committee may amend or terminate this Program at any time. While the Compensation Committee intends that any amendment or termination would be prospective, the Compensation Committee reserves the right to act retroactively without prior written notice to the participants.
10. **Final Decision:** The Compensation Committee will make the final determination as to the eligibility for participation in the Program and any other applicable terms. All decisions made by the Compensation Committee regarding this Program shall be final.

This Program shall be governed by local laws and regulations.

APPENDIX

Payout Examples at Target:

This example of the fiscal year end payout is based on the following assumptions:

- Employed full-time during the entire fiscal year
- Annual Eligible Earnings in local currency is 100,000
- Performance Multiplier is 1.5 or 150% applies
- Bonus target is 30%
- Corporate attainment for the fiscal year is 100%
- Division attainment is 100%

(Note: The example does not represent actual executive level bonus targets or salaries)

**Payment:** The fiscal year end payout is made after the end of the fiscal year and is calculated using the formula based on:

- Actual attainment against fiscal year Corporate and Division/Function metrics
- Current year performance multiplier

Metric	Weight	Threshold	Payout Minimum	Payout Target	Payout Maximum
Revenue Growth	25%	60%	50%	100%	150%
Operating Profit	25%	90%	50%	100%	150%
Business Division or Function Results	50%	Division/ Function Specific	50%	100%	150%

Payout Formula

FY Eligible Earnings

Eligible Earnings Paid in Local Currency

200,000

x

Attainment %

Performance Result for Company and Business

100%

x

Performance Multiplier

Individual Multiplier

150%

x

Target Bonus %

Individual Bonus % Based on Job Level

30%

=

90,000 payout

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

I, Hock E. Tan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avago Technologies Limited;
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(s) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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/ Hock E. Tan

Hock E. Tan

Chief Executive Officer

Date: March 10, 2011



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

I, Douglas R. Bettinger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avago Technologies Limited;
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(s) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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/ Douglas R. Bettinger

Douglas R. Bettinger  
Chief Financial Officer  
Date: March 10, 2011

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Avago Technologies Limited (the “Company”) for the quarter ended January 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Hock E. Tan, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2011

/s/ Hock E. Tan

Hock E. Tan

Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Avago Technologies Limited (the "Company") for the quarter ended January 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Douglas R. Bettinger, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2011

/s/ Douglas R. Bettinger

Douglas R. Bettinger  
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.