

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 June 30, 2014.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE
TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-25699



PLX Technology, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware

94-3008334

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification Number)

**870 W. Maude Avenue
Sunnyvale, California 94085
(408) 774-9060**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check One):
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller Reporting Company ☐

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

As of June 30, 2014 there were 45,957,760 shares of common stock, par value \$0.001 per share, outstanding.

PLX TECHNOLOGY, INC.
INDEX TO
REPORT ON FORM 10-Q
FOR QUARTER ENDED JUNE 30, 2014

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLX TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands)

	June 30, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 15,659	\$ 11,021
Short-term marketable securities	9,900	8,295
Accounts receivable, net	13,042	12,835
Inventories	11,998	10,289
Other current assets	2,235	2,117
Total current assets	52,834	44,557
Property and equipment, net	11,229	10,333
Goodwill	20,461	20,461
Long-term marketable securities	111	1,108
Other assets	863	701
Total assets	<u>\$ 85,498</u>	<u>\$ 77,160</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 10,443	\$ 6,511
Accrued compensation and benefits	3,270	4,050
Accrued commissions	492	480
Other accrued expenses	4,965	3,213
Total current liabilities	19,170	14,254
Long term borrowing against line of credit	5,000	5,000
Total liabilities	24,170	19,254
Stockholders' Equity:		
Common stock, par value	46	46
Additional paid-in capital	194,940	193,391
Accumulated other comprehensive loss	(277)	(277)
Accumulated deficit	(133,381)	(135,254)
Total stockholders' equity	61,328	57,906
Total liabilities and stockholders' equity	<u>\$ 85,498</u>	<u>\$ 77,160</u>

See accompanying notes to condensed consolidated financial statements.

PLX TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net revenues	\$ 28,511	\$ 26,850	\$ 53,350	\$ 53,068
Cost of revenues	11,808	11,777	21,892	22,470
Gross margin	16,703	15,073	31,458	30,598
Operating expenses:				
Research and development	9,444	6,480	15,834	12,441
Selling, general and administrative	5,844	6,804	11,941	13,223
Acquisition and restructuring related costs	1,711	-	1,711	291
Total operating expenses	16,999	13,284	29,486	25,955
Income (loss) from operations	(296)	1,789	1,972	4,643
Interest income (expense) and other, net	(24)	(55)	(53)	(126)
Income (loss) from continuing operations before provision for income taxes	(320)	1,734	1,919	4,517
Provision (benefit) for income taxes	(6)	61	46	145
Income (loss) from continuing operations, net of tax	(314)	\$ 1,673	\$ 1,873	\$ 4,372
Loss from discontinued operations, net of tax	-	-	-	(57)
Net income (loss)	\$ (314)	\$ 1,673	\$ 1,873	\$ 4,315
Basic net income (loss) per share:				
Income (loss) from continuing operations	\$ (0.01)	\$ 0.04	\$ 0.04	\$ 0.10
Loss from discontinued operations	\$ -	\$ -	\$ -	\$ -
Net income (loss)	\$ (0.01)	\$ 0.04	\$ 0.04	\$ 0.10
Diluted net income (loss) per share:				
Income (loss) from continuing operations	\$ (0.01)	\$ 0.04	\$ 0.04	\$ 0.09
Loss from discontinued operations	\$ -	\$ -	\$ -	\$ -
Net income (loss)	\$ (0.01)	\$ 0.04	\$ 0.04	\$ 0.09
Shares used to compute per share amounts				
Basic	45,922	45,611	45,882	45,487
Diluted	45,922	46,299	47,154	46,195

See accompanying notes to condensed consolidated financial statements.

PLX TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$ (314)	\$ 1,673	\$ 1,873	\$ 4,315
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on marketable securities, net	-	(1)	2	(1)
Foreign currency translation adjustments	(6)	(25)	(2)	(28)
Comprehensive net income (loss)	<u>\$ (320)</u>	<u>\$ 1,647</u>	<u>\$ 1,873</u>	<u>\$ 4,286</u>

See accompanying notes to condensed consolidated financial statements.

PLX TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 1,873	\$ 4,315
Adjustments to reconcile net income to net cash flows from operating activities, net of assets acquired and liabilities assumed:		
Depreciation and amortization	1,020	1,104
Share-based compensation expense	916	1,082
Write-downs of inventories	167	158
Other non-cash items	23	19
Changes in operating assets and liabilities:		
Accounts receivable	(207)	(1,552)
Inventories	(1,876)	(198)
Other current assets	(118)	(987)
Other assets	(236)	230
Accounts payable	3,932	(4,848)
Accrued compensation and benefits	(780)	(1,568)
Other accrued expenses	1,764	398
Net cash provided by (used) in operating activities	<u>6,478</u>	<u>(1,847)</u>
Cash flows from investing activities:		
Purchases of marketable securities	(5,496)	(5,763)
Maturities of marketable securities	4,868	3,113
Purchase of property and equipment	(1,835)	(381)
Net cash used in investing activities	<u>(2,463)</u>	<u>(3,031)</u>
Cash flows from financing activities:		
Proceeds from exercise of common stock options	633	1,414
Taxes paid related to net share settlement of equity awards	-	(321)
Net cash provided by financing activities	<u>633</u>	<u>1,093</u>
Effect of exchange rate fluctuations on cash and cash equivalents	<u>(10)</u>	<u>(26)</u>
Net increase (decrease) in cash and cash equivalents	4,638	(3,811)
Cash and cash equivalents at beginning of period	11,021	14,673
Cash and cash equivalents at end of period	<u>\$ 15,659</u>	<u>\$ 10,862</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 162	\$ 98
Cash from income tax refunds	\$ -	\$ 1
Cash paid for interest	\$ 85	\$ 123

See accompanying notes to condensed consolidated financial statements.

PLX TECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of PLX Technology, Inc. and its wholly-owned subsidiaries (collectively, “PLX” or the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals) that management considers necessary for a fair presentation of the Company’s financial position, operating results and cash flows for the interim periods presented. Operating results and cash flows for interim periods are not necessarily indicative of results for the entire year.

The unaudited condensed consolidated financial statements include all of the accounts of the Company and those of its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

This financial data should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Pending Transaction

On June 23, 2014, the Company entered into an Agreement and Plan of Merger (“Merger Agreement”) with Avago Technologies Wireless (U.S.A.) Manufacturing Inc. (“Avago”). The Merger Agreement provides for Avago to purchase all of the outstanding shares (the “Shares”) of PLX common stock, at a price of \$6.50 per share. Pursuant to the terms of the Merger Agreement, Avago commenced a tender offer (the “Offer”) on July 8, 2014.

Concurrently with entering into the Merger Agreement, the largest stockholder of PLX, certain senior members of the PLX management team and all of the directors of PLX, entered into a Tender and Support Agreement with Avago (the “Tender and Support Agreements”) pursuant to which they agreed, among other things, to tender all of their Shares in the Offer, unless the Merger Agreement is terminated. In aggregate, such persons own approximately 14.7% of the outstanding shares of PLX.

The agreement is subject to various conditions, including, but not limited to (i) at least a majority of shares of PLX common stock then outstanding (calculated on a fully diluted basis) being tendered into the Offer, (ii) the expiration or termination of the applicable Hart-Scott-Rodino Act (“HSR Act”) waiting period and compliance with the requirements under chapter VII of the Act against Restraints of Competition of 1958 of Germany, as amended, and (iii) the absence of any Company Material Adverse Effect (as defined in the Merger Agreement) with respect to PLX’s business.

The Offer will expire at midnight, New York time on August 11, 2014, the 25th business day (calculated in accordance with the rules of the Securities Exchange Act of 1934) following the commencement date of the Offer, unless extended in accordance with the terms of the Offer and the Merger Agreement and the applicable rules and regulations of the United States Securities and Exchange Commission (the “SEC”).

PLX and Avago each filed a Premerger Notification and Report Form under the HSR Act with the Federal Trade Commission and the Antitrust Division in connection with the purchase of Shares in the Offer and the Merger on July 2, 2014. On July 17, 2014 at 11:59 p.m., New York City time, the required HSR Act waiting period with respect to the Offer and the Merger expired.

PLX has agreed to certain restrictions on its ability to solicit and respond to any other proposals to acquire PLX. Under the Merger Agreement, PLX is prohibited from soliciting or encouraging any Competing Proposal or Competing Inquiry (each as defined in the Merger Agreement). Additionally, under the Merger Agreement, at any time on or after June 23, 2014 until the Acceptance Time (as defined in the Merger Agreement), PLX is permitted to provide information to, and engage in discussions with, third parties with respect to a written Competing Proposal if the board of directors of PLX determines in good faith after consultation with its independent financial and outside legal advisors that the Competing Proposal constitutes or would reasonably be expected to lead to a Superior Proposal (as defined in the Merger Agreement) and that failure to take such action would be reasonably likely to result in a breach of its fiduciary duties.

The agreement contains certain termination rights by the Company and Avago including the Company's acceptance of a superior proposal. In the event that the Merger Agreement is terminated, the Company may, under specified circumstances, be required to pay a termination fee of \$10.85 million.

A copy of the Merger Agreement is attached as Exhibit 2.1 to the Form 8-K filed by PLX on June 23, 2014, to report the Merger Agreement. Additional information relating to the Merger Agreement is also included in that Form 8-K and in other filings PLX and Avago have made and will make with the SEC relating to the Merger Agreement.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Our significant estimates include our allowance for sales returns, obsolescence and slow moving inventory reserve, the amount of valuation allowance needed on our deferred tax assets, the useful lives of our long lived assets, the expected life and volatility inputs used to determine our stock compensation charges and the amount of our contingent liabilities. Actual results could differ from those estimates and such differences may be material to the financial statements.

Accumulated Other Comprehensive Loss

The changes in the components of accumulated other comprehensive loss, net of tax, reflected in the Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss), consisted of the following (in thousands):

	Three Months Ended June 30, 2014		
	Unrealized gain on marketable securities	Foreign currency translation adjustments	Total
Balance at April 1, 2014	\$ 1	\$ (272)	\$ (271)
Other comprehensive loss before reclassifications	-	(6)	(6)
Balance at June 30, 2014	<u>\$ 1</u>	<u>\$ (278)</u>	<u>\$ (277)</u>

	Six Months Ended June 30, 2014		
	Unrealized gain (loss) on marketable securities	Foreign currency translation adjustments	Total
Balance at January 1, 2014	\$ (1)	\$ (276)	\$ (277)
Other comprehensive income (loss) before reclassifications	2	(2)	-
Balance at June 30, 2014	<u>\$ 1</u>	<u>\$ (278)</u>	<u>\$ (277)</u>

	Three Months Ended June 30, 2013		
	Unrealized gain (loss) on marketable securities	Foreign currency translation adjustments	Total
Balance at April 1, 2013	\$ 1	\$ (230)	\$ (229)
Other comprehensive loss before reclassifications	(1)	(25)	(26)
Balance at June 30, 2013	<u>\$ -</u>	<u>\$ (255)</u>	<u>\$ (255)</u>

	Six Months Ended June 30, 2013		
	Unrealized gain (loss) on marketable securities	Foreign currency translation adjustments	Total
Balance at January 1, 2013	\$ 1	\$ (227)	\$ (226)
Other comprehensive loss before reclassifications	(1)	(28)	(29)
Balance at June 30, 2013	\$ -	\$ (255)	\$ (255)

There were no amounts reclassified from accumulated other comprehensive loss in the three and six months ended June 30, 2014 and 2013.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery or customer acceptance, where applicable, has occurred, the fee is fixed or determinable and collection is reasonably assured.

Revenue from product sales to direct customers and distributors is recognized upon shipment and transfer of risk of loss, if the Company believes collection is reasonably assured and all other revenue recognition criteria are met. The Company assesses the probability of collection based on a number of factors, including past transaction history and the customer's creditworthiness. At the end of each reporting period, the sufficiency of allowances for doubtful accounts is assessed based on the age of the receivable and the individual customer's creditworthiness.

The Company offers pricing protection to two distributors whereby the Company supports the distributor's resale product margin on certain products held in the distributor's inventory. The Company analyzes current requests for credit in process, also known as ship and debits, historical rates and amounts of credits issued and inventory at the distributor to determine the ending sales reserve required for this program. The Company also offers stock rotation rights to two distributors such that they can return up to a total of 5% of products purchased every six months in exchange for other PLX products of equal value. The Company analyzes inventory at distributors, current stock rotation requests and past experience to determine the ending sales reserve required at each reporting period. Provisions for reserves are charged directly against revenue and the related reserves are recorded as a reduction to accounts receivable.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new standard to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under U.S. generally accepted accounting principles ("GAAP"). Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for annual reporting periods beginning after December 15, 2016. Early adoption is prohibited. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

Discontinued Operations

On September 20, 2012, the Company completed the sale of its physical layer 10GBase-T integrated circuit ("PHY") family of products pursuant to an Asset Purchase Agreement between the Company and Aquantia Corporation dated September 14, 2012. On July 6, 2012, the Company had also entered into an Asset Purchase Agreement (the "Entropic APA") with Entropic Communications, Inc., pursuant to which the Company completed the sale of its digital channel stacking switch product line within the PHY product family, including certain assets exclusively related to the product line. The operations of the PHY related business have been segregated from continuing operations and are presented as discontinued operations in the Company's consolidated statement of operations for all periods presented.

2. Share-Based Compensation

Equity Incentive Plans

In May 2008, the Company's stockholders approved the 2008 Equity Incentive Plan ("2008 Plan"). The 2008 Plan was amended by the Company's stockholders in May 2010 to increase the number of shares reserved for issuance under the Plan by 1,500,000 shares. In May 2011, the 2008 Plan was amended again by the Company's stockholders to increase the number of shares reserved for issuance under the Plan by 2,300,000 shares. Under the 2008 Plan, there is currently authorized for issuance and available for awards an aggregate of 5,000,000 shares of the Company's common stock, plus up to an additional 2,407,369 shares that otherwise would have reverted to the share reserve of the Company's prior incentive plan, the Company's 1999 Stock Incentive Plan, subject to an overall, aggregate share reserve limit of 7,407,369 shares. Awards under the 2008 Plan may include stock options, restricted stock, stock appreciation rights, performance awards, restricted stock units ("RSUs") and other awards, provided that with respect to full value awards, such as restricted stock or restricted stock units, no more than 300,000 shares may be issued in the form of full value awards during the term of the 2008 Plan. Awards under the 2008 Plan may be made to the Company's officers and other employees, its board members and consultants that it hires. Generally, options vest over a four-year period and expire no more than seven years after the date of grant. The 2008 Plan has a term of ten years.

Employee Stock Ownership Plan

In January 2009, the Company established the PLX Technology, Inc. Employee Stock Ownership Plan (the "ESOP"). The ESOP is a non-leveraged, tax-qualified defined contribution retirement plan that is non-contributory. PLX regular employees (other than nonresident aliens with no U.S.-source income, employees covered by a collective bargaining agreement, leased employees and employees of a non-participating subsidiary of PLX) who are at least 18 years old and have worked for PLX for at least 12 consecutive months are eligible to participate in the ESOP. The Company makes cash contributions equal to a percentage of eligible compensation that is determined annually by the Board of Directors. Compensation costs are recorded based on the cash contribution amounts. Eligible compensation is limited to \$150,000. The contributions are used to purchase common stock of the Company. Since the adoption of the ESOP, the Company has made annual contributions of 2% of each employee's eligible compensation up to a maximum of \$3,000 for any single employee (2% of \$150,000 of eligible compensation). In accordance with the Avago merger agreement, the Company ceased contributing to the plan after the June 2014 contribution. Eligible participants receive a share allocation at the end of the plan year based on the contributions plus an additional allocation for forfeitures that occurred during the plan year. The shares and forfeitures are allocated to each ESOP participant who is employed on the last day of the ESOP Plan Year (December 31) in the same proportion that the compensation (up to the \$150,000 limit) of each ESOP participant bears to the eligible compensation of all ESOP participants.

Share-Based Compensation Expense

The fair value of share-based awards is calculated using the Black-Scholes option pricing model, which requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

The weighted-average fair value of share-based compensation to employees is based on the multiple option valuation approach. Forfeitures are estimated and it is assumed no dividends will be declared. The estimated fair value of share-based compensation awards to employees is amortized using the straight-line method over the vesting period of the awards. The weighted-average fair value calculations are based on the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Risk-free interest rate	1.51%	1.01%	1.53%	0.84%
Expected volatility	50.10%	58.60%	52.20%	60.60%
Expected life (years)	4.56	4.34	4.56	4.34

Risk-Free Interest Rate: The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

Expected Life: The Company's expected life represents the weighted-average period that the Company's stock options are expected to be outstanding. The expected life is based on the observed and expected time to post-vesting exercise of options by employees. The Company uses historical exercise patterns of previously granted options to derive an employee behavioral pattern used to forecast expected exercise patterns.

Expected Volatility: The Company believes that historical volatility best represents expected volatility due to the lack of market data consistently available to calculate implied volatility. The historical volatility is based on the weekly closing prices of its common stock over a period equal to the expected term of the option and is a strong indicator of the expected future volatility.

These factors could change in the future, which would affect the share-based compensation expense in future periods.

As share-based compensation expense recognized in the unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following tables show total share-based compensation and employee stock ownership plan expenses recorded for the three and six months ended June 30, 2014 and 2013, included in the respective line items of the Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Stock Options and RSUs	ESOP	Total	Stock Options and RSUs	ESOP	Total
Cost of revenues	\$ 12	\$ 2	\$ 14	\$ 22	\$ 5	\$ 27
Research and development	168	51	219	320	120	440
Selling, general and administrative	274	28	302	575	79	654
Total share-based compensation expense	<u>\$ 454</u>	<u>\$ 81</u>	<u>\$ 535</u>	<u>\$ 917</u>	<u>\$ 204</u>	<u>\$ 1,121</u>

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Stock Options and RSUs	ESOP	Total	Stock Options and RSUs	ESOP	Total
Cost of revenues	\$ 11	\$ 3	\$ 14	\$ (12)	\$ 3	\$ (9)
Research and development	143	48	191	306	110	416
Selling, general and administrative	334	28	362	842	83	925
Discontinued operations (1)	-	-	-	(54)	-	(54)
Total share-based compensation expense	<u>\$ 488</u>	<u>\$ 79</u>	<u>\$ 567</u>	<u>\$ 1,082</u>	<u>\$ 196</u>	<u>\$ 1,278</u>

(1) Recorded in loss from discontinued operations in the Condensed Consolidated Statements of Operations.

A summary of option activity under the Company's stock equity plans during the six months ended June 30, 2014 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	4,652,563	\$ 4.26	4.09	\$ 11,427,206
Granted	852,380	6.01		
Exercised	(166,591)	3.80		
Cancelled	(220,825)	8.31		
Outstanding at June 30, 2014	5,117,527	\$ 4.39	4.24	\$ 10,763,856
Exercisable at June 30, 2014	3,031,329	\$ 3.92	3.10	\$ 7,848,111

The Black-Scholes weighted average fair values of options granted during the three months ended June 30, 2014 and 2013 were \$2.55 and \$2.12, respectively.

The Black-Scholes weighted average fair values of options granted during the six months ended June 30, 2014 and 2013 were \$2.56 and \$2.17, respectively.

The following table summarizes ranges of outstanding and exercisable options as of June 30, 2014:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$1.80-\$3.35	1,092,092	2.13	\$ 2.30	1,013,638	\$ 2.25
\$3.36-\$4.10	1,085,569	3.98	3.92	737,903	3.88
\$4.11-\$4.84	1,094,724	5.68	4.59	360,320	4.59
\$4.85-\$5.94	1,079,638	4.21	5.34	638,804	4.93
\$5.95-\$11.99	765,504	5.61	6.42	280,664	6.87
Total	5,117,527	4.24	\$ 4.39	3,031,329	\$ 3.92

The total intrinsic value of options exercised during the three and six months ended June 30, 2014 was \$0.2 million and \$0.4 million respectively. For same periods in 2013, the total intrinsic value of options exercised was \$0.1 million and \$0.4 million, respectively. The fair value of options vested during the three and six months ended June 30, 2014 was approximately \$0.9 million and \$1.5 million, respectively. As of June 30, 2014, total unrecognized compensation costs related to nonvested stock options including estimated forfeitures was \$2.4 million which is expected to be recognized as expense over a weighted average period of approximately 1.5 years.

The following table summarizes the activity for our nonvested restricted stock units (“RSUs”) during the six months ended June 30, 2014:

	Nonvested Restricted Stock Units	
	Number of Shares	Weighted Average Grant-Date Fair Value
December 31, 2013	-	\$ -
Granted	10,000	\$ 5.94
June 30, 2014	10,000	\$ 5.94

As of June 30, 2014, total unrecognized compensation cost related to nonvested RSUs was \$53,000 which is expected to be recognized as expense over a weighted average period of approximately 3.60 years.

3. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market (net realizable value). Inventories were as follows (in thousands):

	June 30, 2014	December 31, 2013
Work-in-process	\$ 5,835	\$ 5,561
Finished goods	6,163	4,728
Total	\$ 11,998	\$ 10,289

The Company evaluates the need for potential inventory write downs by considering a combination of factors including the life of the product, sales history, obsolescence, sales forecasts and expected sales prices.

4. Net Income (Loss) Per Share

The Company uses the treasury stock method to calculate the weighted average shares used in the diluted earnings per share. The following table sets forth the computation of basic and diluted income (loss) per share from continuing operations (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income (loss) from continuing operations	\$ (314)	\$ 1,673	\$ 1,873	\$ 4,372
Weighted average shares outstanding - basic	45,922	45,611	45,882	45,487
Dilutive effect of stock options and RSUs	-	688	1,272	708
Weighted average shares outstanding - diluted	45,922	46,299	47,154	46,195
Basic income (loss) per share from continuing operations	\$ (0.01)	\$ 0.04	\$ 0.04	\$ 0.10
Diluted income (loss) per share from continuing operations	\$ (0.01)	\$ 0.04	\$ 0.04	\$ 0.09

As the Company incurred a net loss for the three month period ended June 30, 2014, the effect of dilutive securities, totaling 5.1 million shares has been excluded from the computation of diluted loss per share, as its impact would be anti-dilutive. Weighted average employee stock options to purchase approximately 0.7 million shares for the six month period ended June 30, 2014 were outstanding, but were not included in the computation of diluted earnings per share as the exercise price of the options was greater than the average share price of the Company’s stock or the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense and exercise prices was greater than the weighted average number of shares underlying outstanding option and, therefore, the effect would have been anti-dilutive. Dilutive securities are comprised of options to purchase common stock and RSUs.

Weighted average employee stock options to purchase approximately 2.7 million and 2.2 million shares for the three and six month periods ended June 30, 2013, respectively, were outstanding, but were not included in the computation of diluted earnings per share as the exercise price of the options was greater than the average share price of the Company's stock or the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense and exercise prices was greater than the weighted average number of shares underlying outstanding option and, therefore, the effect would have been anti-dilutive.

5. Fair Value Measurements

The accounting guidance for fair value measurements provides a framework for measuring fair value and expands related disclosures. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The guidance also establishes a hierarchy which requires an entity to maximize the use of observable inputs, when available. The guidance requires fair value measurement be classified and disclosed in one of the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical assets and liabilities. The fair value of available-for-sale securities included in the level 1 category is based on quoted prices that are readily and regularly available in an active market.

Level 2: Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. The fair value of available-for-sale securities included in the Level 2 category is based upon quoted prices in markets that are not active and incorporate available trade, bid and other market information.

Level 3: Valuations based on inputs that are unobservable and involve management judgment and the reporting entity's own assumptions about market participants and pricing.

The fair value of financial assets and liabilities measured on a recurring basis is as follows (in thousands):

		Fair Value Measurement as of Reporting Date		
		Using		
	June 30, 2014	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	\$ 185	\$ 185	\$ -	\$ -
Certificate of deposit	8,616	-	8,616	-
Marketable securities	1,488	-	1,488	-
Total	<u>\$ 10,289</u>	<u>\$ 185</u>	<u>\$ 10,104</u>	<u>\$ -</u>

		Fair Value Measurement as of Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
	December 31, 2013			
Assets:				
Money market funds	\$ 1	\$ 1	\$ -	\$ -
Certificate of deposit	7,555	-	7,555	-
Marketable securities	2,716	-	2,716	-
Total	<u>\$ 10,272</u>	<u>\$ 1</u>	<u>\$ 10,271</u>	<u>\$ -</u>

The fair value of the Company's money-market funds classified as Level 1 is valued using prices in active markets. The fair values of the Company's investments classified as Level 2 are valued using inputs that include actual trade data, benchmark yields, broker/dealer quotes and other similar data. These inputs are obtained from quoted market prices, independent pricing vendors or other sources.

6. Investments

As of June 30, 2014, the Company's securities consisted of certificate of deposits and debt securities and were designated as available-for-sale. Available-for-sale securities are carried at fair value, based on quoted market prices or prices quoted in markets that are not active, with unrealized gains and losses reported in a separate component of stockholders' equity. The amortized cost of debt securities is adjusted for the amortization of premiums and the accretion of discounts to maturity, both of which are included in interest income. Realized gains and losses are recorded on the specific identification method.

The fair value of available-for-sale investments is as follows (in thousands):

	June 30, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Certificate of deposit	\$ 8,616	\$ 1	\$ (1)	\$ 8,616
Marketable securities:				
Municipal bonds	982	1	-	983
US treasury and government agencies securities	505	-	-	505
Total	<u>\$ 10,103</u>	<u>\$ 2</u>	<u>\$ (1)</u>	<u>\$ 10,104</u>
Less amounts classified as cash equivalents				(93)
Total short and long-term available-for-sale investments				<u>\$ 10,011</u>
Contractual maturity dates for investments:				
Less than one year:				9,900
One to two years:				111
				<u>\$ 10,011</u>

December 31, 2013				
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Certificate of deposit	\$ 7,557	\$ -	\$ (2)	\$ 7,555
Marketable securities:				
Municipal bonds	2,125	1	-	2,126
US treasury and government agencies securities	590	-	-	590
Total	<u>\$ 10,272</u>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ 10,271</u>
Less amounts classified as cash equivalents				(868)
Total short and long-term available-for-sale investments				<u>\$ 9,403</u>
Contractual maturity dates for investments:				
Less than one year:				8,295
One to two years:				1,108
				<u>\$ 9,403</u>

The following tables show the gross unrealized losses and fair value for investments in an unrealized loss position as of June 30, 2014 and December 31, 2013, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

June 30, 2014						
	Less than 12 Months		12 months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Certificate of deposit	\$ 833	\$ (1)	\$ -	\$ -	\$ 833	\$ (1)
Total	<u>\$ 833</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 833</u>	<u>\$ (1)</u>
December 31, 2013						
	Less than 12 Months		12 months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Certificate of deposit	\$ 1,956	\$ (2)	\$ -	\$ -	\$ 1,956	\$ (2)
Total	<u>\$ 1,956</u>	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,956</u>	<u>\$ (2)</u>

The Company reviews its available for sale investments for impairment at the end of each period. Investments in debt securities are considered impaired when the fair value of the debt security is below its amortized cost. If an impairment exists and the Company determines it has intent to sell the debt security or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment loss is recognized in earnings to write the debt security down to its fair value. However, even if the Company does not expect to sell the debt security, it must evaluate expected cash flows to be received and determine if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in earnings. Amounts relating to factors other than credit losses are recognized in other comprehensive income. The Company did not record any other-than-temporary write-downs in the accompanying financial statements.

7. Acquisition and Restructuring Costs

For the three and six months ended June 30, 2014 the Company recorded \$1.7 million of acquisition costs, primarily for outside legal and investment banking fees associated with the pending Avago acquisition of PLX. These expenses were included in operating expenses under acquisition and restructuring related costs in the Company's Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2014.

For the six months ended June 30, 2013, the Company recorded \$0.3 million of severance and benefit related costs, included in acquisition and restructuring related costs in the Condensed Consolidated Statement of Operations, related to the termination of 4 employees worldwide as part of the restructuring of SG&A activities as a result of the 2012 divestiture of the PHY business. As of December 31, 2013 all of the severance and benefit accruals were paid.

For the six months ended June 30, 2013, the Company recorded \$12,000 of outside legal and accounting costs associated with the wrap up of the IDT acquisition activities, which were terminated in December 2012. These expenses were also included in operating expenses under acquisition and restructuring related costs in the Company's Condensed Consolidated Statement of Operations.

8. Segments of an Enterprise and Related Information

The Company has one operating segment, the sale of semiconductor devices. The Chief Executive Officer has been identified as the Chief Operating Decision Maker ("CODM") because he has final authority over resource allocation decisions and performance assessment. The CODM does not receive discrete financial information about individual components of the Company's business. The majority of the Company's assets are located in the United States.

Revenues from continuing operations by geographic region based on customer location were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
China	\$ 7,246	\$ 7,752	\$ 13,420	\$ 14,788
Taiwan	5,923	4,816	11,009	8,926
United States	5,050	4,944	9,806	10,777
Germany	2,600	2,399	5,617	4,806
Singapore	3,236	4,632	6,058	9,100
Other Asia Pacific	3,995	2,002	6,683	3,804
Europe, Middle East and Africa	290	204	441	648
The Americas - excluding United States	171	101	316	219
Total	<u>\$ 28,511</u>	<u>\$ 26,850</u>	<u>\$ 53,350</u>	<u>\$ 53,068</u>

There were no direct end customers that accounted for more than 10% of net revenues. Sales to the following distributors accounted for 10% or more of net revenues from continuing operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Excelpoint Systems Pte Ltd	27%	32%	27%	33%
Avnet, Inc.	23%	22%	24%	24%
Answer Technology, Inc.	16%	14%	15%	13%

There were no direct end customers that accounted for more than 10% or more of the total accounts receivable balance. The following distributors accounted for 10% or more of the total accounts receivable balance:

	June 30,	
	2014	2013
Excelpoint Systems Pte Ltd	34%	39%
Answer Technology, Inc.	23%	19%

9. Line of Credit

On September 30, 2011, the Company entered into an agreement with Silicon Valley Bank to establish a two-year \$10.0 million revolving loan facility. On April 22, 2013, the agreement was amended to increase the facility to \$15.0 million and extend the maturity date to September 30, 2015. The facility provides for revolving advances based on a borrowing-base formula tied to the Company's receivables and also provides for month-end and fiscal quarter-end advances beyond the borrowing-base formula subject to certain limitations and requirements. Borrowings under the credit facility bear interest at rates equal to the prime rate announced from time to time in The Wall Street Journal. As of June 30, 2014 the prime rate was 3.25%. The facility also provides for commitment, unused facility and letter-of-credit fees. The facility is secured by liens on the Company's personal property assets except for intellectual property, which is subject to a negative pledge against encumbrance. As of June 30, 2014 there is \$5.0 million outstanding against the facility. In addition, the Company issued an irrevocable letter of credit of \$0.8 million against the facility for the bond issued as a result of the judgment in the Internet Machines litigation. Borrowing availability as of June 30, 2014 was \$9.2 million. Interest payments are paid monthly with principal due at maturity.

The facility is subject to certain financial covenants for EBITDA, as defined in the agreement, and a monthly quick ratio computation (PLX's cash, investments and accounts receivable divided by current liabilities). The Company was in compliance with all financial covenants associated with this facility as of June 30, 2014.

10. Commitments and Contingencies

Internet Machines Litigation

To date, Internet Machines LLC ("Internet Machines") has filed three separate lawsuits against PLX. The first suit was filed on February 2, 2010, which has been served on PLX, entitled Internet Machines LLC v. Alienware Corporation, et al., in the United States District Court for the Eastern District of Texas, Tyler Division (the "First Suit"). This First Suit alleges infringement by PLX and the other defendants in the lawsuit of two patents held by Internet Machines. The complaint in the lawsuit seeks unspecified compensatory damages, treble damages and attorneys' fees, as well as injunctive relief against further infringement of Internet Machines' patents. On May 14, 2010, the Company filed its answer to the live complaint and asserted counterclaims, seeking declaratory judgments of non-infringement and invalidity of the patents-in-suit. On December 6, 2010, the Court held a case-management conference and subsequently entered a scheduling order in this matter, and set the trial for February 2012.

On February 21, 2012, through February 29, 2012, the claims and defenses asserted in the First Suit were tried to a seven-member jury in the United States District Court for the Eastern District of Texas, Tyler Division. On February 29, 2012, the jury returned its verdict, finding the patents-in-suit valid and infringed and awarded money damages against PLX in the amount of \$1.0 million. On June 19, 2013, the Court issued its ruling on the post-verdict motions filed by the parties and entered an appealable judgment, affirming the jury's findings of validity and infringement. The judgment entered by the Court further affirmed the monetary award found by the jury. On July 17, 2013, the Company filed a notice of appeal with the Court and on October 7, 2013 it filed the appeal brief, appealing the judgment to the United States Court of Appeals for the Federal Circuit. The Company intends to continue to vigorously seek reversal of the jury's verdict and the Court's judgment on appeal.

Internet Machines' second lawsuit, which has also been served on PLX, was filed on October 17, 2010, again in the United States District Court for the Eastern District of Texas, Tyler Division (the "Second Suit"). This Second Suit, entitled Internet Machines LLC v. ASUS Computer International, et al., alleges infringement by PLX of another patent held by Internet Machines. The complaint also asserts infringement claims against a separate group of defendants not named in the first Internet Machines lawsuit, and accuses those defendants of infringing the two patents asserted against PLX in the First Suit, as well as the additional patent listed in this Second Suit. The complaint in the lawsuit seeks unspecified compensatory damages, treble damages and attorneys' fees, as well as injunctive relief against further infringement of Internet Machines' patents. On December 28, 2010, the Company filed its answer to the live complaint in the second lawsuit and asserted counterclaims, seeking declaratory judgments of non-infringement and invalidity of the patents-in-suit.

On May 17, 2011, Internet Machines filed a third lawsuit entitled Internet Machines LLC v. Avnet, Inc., et al., again in the United States District Court for the Eastern District of Texas, Tyler Division (the “Third Suit”). The third lawsuit has been served on PLX and alleges that PLX infringes a fourth patent held by Internet Machines. This lawsuit also accuses a new group of defendants of infringing each of Internet Machines' patents at issue in the First and Second Suits, as well as the fourth patent asserted against PLX in this Third Suit. The complaint in the Third Suit seeks unspecified compensatory damages, treble damages and attorneys' fees, as well as injunctive relief against further infringement of Internet Machines' patents. On September 27, 2011, the Company filed its answer to the live complaint and asserted counterclaims, seeking declaratory judgments of non-infringement and invalidity of the patents-in-suit.

On January 20, 2012, the Court entered an order consolidating the Second and Third Suits into one action. The Court further ordered that the schedule entered in the Third Suit would govern the consolidated action. As a result, the consolidated action was originally set for trial in February 2013.

On March 25, 2011, a related entity, Internet Machines MC LLC, filed a lawsuit against PLX, entitled Internet Machines MC LLC v. PLX Technology, Inc., et al., in the United States District Court for the Eastern District of Texas, Marshall Division. Internet Machines MC LLC, however, did not serve the initial complaint on PLX. Instead, on August 26, 2011, Internet Machines MC LLC filed a first amended complaint, which has now been served on PLX, alleging infringement by PLX and the other defendants in the lawsuit of one patent held by Internet Machines MC LLC. The complaint in this lawsuit seeks unspecified compensatory damages, treble damages and attorneys' fees, as well as injunctive relief against further infringement of Internet Machines MC LLC's patents. On November 11, 2011, the Company filed its answer to the live complaint and asserted counterclaims, seeking declaratory judgments of non-infringement and invalidity of the patents-in-suit. On March 5, 2012, the Court held an initial case-management conference in this matter. The Court entered a scheduling order in this matter, and trial was originally set for July 2013.

On September 4, 2012, the Court entered an order staying the Second and Third Suits and the lawsuit brought by Internet Machines MC LLC discussed in the preceding paragraph. Pursuant to the Court's order, those lawsuits are stayed until a final non-appealable judgment is entered in the First Suit, again styled Internet Machines LLC v. Alienware Corp., et al., Cause No. 6:10-CV-023, in the United States District Court for the Eastern District of Texas. While it is not possible to determine the ultimate outcome of these suits, the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position, but it is unable to estimate a range of possible loss, if any.

As a result of the jury's February 29, 2012 verdict on the First Suit, the Company accrued \$1.0 million as of December 31, 2011. Based on the June 19, 2013 Court's ruling, the Company accrued an additional \$0.9 million. As noted above, the Company has filed an appeal of the jury's verdict and the Court's judgment issued in the First Suit. The Company will continue to accrue royalties, under the Court's direction, until the appeal is finalized. A change in the ruling as a result of that appeal could change the estimated liability in the period in which the outcome of the appeal is known.

Litigation Relating to the Merger Transaction with Avago

Since the announcement of the Merger Agreement on June 23, 2014, nine putative class action lawsuits have been filed by shareholders against the Company, its directors and/or Avago challenging the transactions contemplated by the Merger Agreement. See Note 1 under the caption “Pending Transaction” for more information on the Merger Agreement.

Four lawsuits were filed in the Superior Court for the State of California, County of Santa Clara, captioned Cox v. PLX Technology Inc. et al.; Ellis v. PLX Technology Inc. et al.; Golden v. PLX Technology, Inc. et al.; and Abdallah v. PLX Technology, Inc. et al. (the “California Actions”). On July 17, 2014, the parties lodged stipulated requests to consolidate the California actions under the caption In re PLX Technology, Inc. S'holder Litig. and appoint lead plaintiff and counsel. That same day, the parties lodged a stipulated request to stay the California Actions pending resolution of related actions filed in the Delaware Court of Chancery, described below. Those stipulations await court approval.

Five lawsuits were filed in the Delaware Court of Chancery, captioned Varghese v. PLX Technology, Inc. et al.; Feinstein v. PLX Technology, Inc. et al.; Price v. PLX Technology et al.; Cox v. Avago Technologies Wireless (U.S.A), Inc. et al.; and Cohn v. Salameh et al. (the “Delaware Actions”). On July 21, 2014, the court granted a stipulated order consolidating the Delaware Actions under the caption In re PLX Technology, Inc. Stockholders Litigation, Consol. appointing lead plaintiffs and lead counsel, and designating the complaint filed in Cox as the operative complaint for the consolidated action.

The complaints allege, among other things, that the Company’s directors breached their fiduciary duties to the Company’s stockholders by seeking to sell the Company for an inadequate price, pursuant to an unfair process, and by agreeing to preclusive deal protections in the Merger Agreement. Plaintiffs also allege that the Company, Potomac Capital Partners II, L.P., Parent and the Purchaser aided and abetted the alleged fiduciary breaches. Plaintiffs finally allege that the 14D-9 recommendation statement filed by the Company contains false and misleading statements and/or omits material information necessary to inform the shareholder vote. The complaints seek, among other things, equitable relief to enjoin the consummation of the proposed transaction contemplated by the Merger Agreement, and attorneys’ fees and costs.

Other Litigation

From time to time, the Company is involved in claims and legal proceedings that arise in the ordinary course of business. Any claims or proceedings against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms favorable to the Company or at all. If management believes that a loss arising from these matters is probable and can be reasonably estimated, the Company will record a reserve for the loss.

Long Term Contracts

The Company entered into a license agreement with a third party IP provider, effective April 30, 2014, to license its PCI Express Gen 4 IP. The license allows the Company to develop three products within four years of its acceptance of the final deliverable. The license fee of \$5.5 million is payable in installments based on specific milestones and is subject to royalty payments.

11. Income Taxes

A provision for income tax from continuing operations of \$46,000 has been recorded for the six month period ended June 30, 2014, compared to a provision of \$145,000 for the same period in 2013. Income tax expense for the six months ended June 30, 2014 and 2013 is a result of applying the estimated annual effective tax rate to cumulative profit before taxes.

Due to operating losses incurred, the Company created a full valuation allowance as of December 2002 for deferred tax assets. As of June 30, 2014, a valuation allowance continues to be recorded for the net deferred tax asset based on management’s assessment that the realization of deferred tax assets is uncertain due to the history of losses, the variability of operating results and the inability to conclude that it is more likely than not that sufficient taxable income would be generated in future periods to realize those deferred tax assets. The Company will maintain a full valuation allowance until sufficient positive evidence exists to support a reversal of the valuation allowance. As of December 31, 2013, the Company has a valuation allowance against net deferred assets of \$67.2 million. Other than the estimated usage of the Company’s net operating losses for the year, there were no material changes in the amount of net deferred assets during the six months ended June 30, 2014

The Company intends to review on a quarterly basis the conclusions reached about the appropriate amount of its deferred income tax asset valuation allowance and expects a significant benefit to be recorded in the period the valuation allowance reversal is recorded and a significantly higher effective tax rate in periods following the valuation allowance reversal.

As of December 31, 2013, the Company had unrecognized tax benefits of approximately \$5.9 million of which none, if recognized, would result in a reduction of the Company’s effective tax rate. There were no material changes in the amount of unrecognized tax benefits during the six months ended June 30, 2014. Future changes in the balance of unrecognized tax benefits will have no impact on the effective tax rate as they are subject to a full valuation allowance. The Company does not believe the amount of its unrecognized tax benefits will significantly change within the next twelve months.

The Company is subject to taxation in the United States and various state and foreign jurisdictions. The tax years 2009 through 2012 remain open to examination by the federal and most state tax authorities. Net operating loss and tax credit carryforwards generated in prior periods remain open to examination.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Report on Form 10-Q contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including statements regarding our expectations, hopes, intentions, beliefs or strategies regarding the future, but excluding from such "safe harbor" any statements made or deemed made in connection with the agreement described in Note 1 of the condensed consolidated financial statements. Forward-looking statements include statements regarding our expectations or other prospective statements concerning the Merger Agreement and related transactions described in Note 1 of the condensed consolidated financial statements, statements regarding our PCI Express product revenue growth in 2014, our future gross margins, our future research and development expenses, our future deferred tax valuation and unrecognized tax benefits, our ability to meet our capital requirements for the next twelve months, our future capital requirements, that current high turns fill requirements will continue indefinitely and our anticipation that sales to a small number of customers will account for a significant portion of our sales. Actual results could differ materially from those projected in such forward-looking statements. Factors that could cause actual results to differ include unexpected changes in the mix of our product sales, unexpected pricing pressures, unexpected capital requirements that may arise due to other possible acquisitions or other events, unanticipated changes in the businesses of our suppliers, and unanticipated cash shortfalls. Actual results could also differ for the reasons noted under the sub-heading "Factors That May Affect Future Operating Results" in Item 1A, Risk Factors in Part II of this report on Form 10-Q and in other sections of this report on Form 10-Q. All forward-looking statements included in this Form 10-Q are based on information available to us on the date of this report on Form 10-Q, and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements.

The following discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

OVERVIEW

PLX Technology, Inc. ("We", "PLX" or the "Company"), a Delaware corporation established in 1986, designs, develops, manufactures and sells integrated circuits that perform critical system connectivity functions. These interconnect products are fundamental building blocks for standards-based electronic equipment. We market our products to major customers worldwide that sell electronic systems in the enterprise, consumer, server, storage, communications, personal computer (PC), peripheral and embedded markets.

On June 23, 2014, we announced that we entered into an agreement to be acquired by Avago Technologies Wireless (U.S.A.) Manufacturing Inc. ("Avago") summarized in Note 1 of Notes to Condensed Consolidated Financial Statements.

The explosive growth of cloud-based computing has provided a significant opportunity for PLX, since the data centers that house cloud data and applications have traditionally been limited by their ability to offer high-performance, low-cost, low-power, scalable interconnections. Large public and private data center companies are aggressively promoting open architectures for all types of equipment and software that enables use of off-the-shelf components and systems, allowing significant cost and density improvements. The level of integration is increasing, and the need for rapid expansion forces these customers to build their systems using standards-based, off-the-shelf devices.

PLX is a market share leader in PCI Express switches and bridges. We recognized the trend towards this serial, switched interconnect technology early, launched products for this market long before our competitors and have deployed multiple generations of products to serve a general-purpose market. In addition to enabling customer differentiation through our product features, the breadth of those products' range is in itself a significant benefit to our customers, since we can serve the complete needs of our customers with cost-effective solutions tailored to specific system requirements. PLX supplies an industry-leading, extensive portfolio of PCI Express switches; PCI Express bridges that allow backward compatibility to the previous PCI standard; and other bridging technology that enables seamless interoperability between two of the most popular mainstream interconnects: PCI Express and Universal Serial Bus (USB). Our extensive experience with PCI Express connectivity products enables PLX to deliver reliable devices that operate in non-ideal, real-world system environments.

PLX offers a complete solution consisting of semiconductor devices, software development kits, hardware design kits, software drivers and firmware solutions that enable added-value features in our products. We differentiate our products by offering higher performance at lower power, enabling a richer customer experience based on proprietary features that enable system-level customer advantages, offering the industry's broadest PCI Express portfolio and providing capabilities that enable a customer to get to market more quickly.

We utilize a "fabless" semiconductor business model whereby we purchase wafers and packaged and tested semiconductor devices from independent manufacturing foundries. This approach allows us to focus on defining, developing and marketing our products and eliminates the need for us to invest large amounts of capital in manufacturing facilities and work-in-process inventory.

We rely on a combination of direct sales personnel, distributors and manufacturers' representatives throughout the world to sell a significant portion of our products. We pay manufacturers' representatives a commission on sales while we sell products to distributors at a discount from the selling price.

The time period between initial customer evaluation and design completion is generally between six and twelve months, though it can be longer in some circumstances. Furthermore, there is typically an additional six to twelve month or greater period after design completion before a customer requests volume production of our products. Due to the variability and length of these design cycles and variable demand from customers, we may experience significant fluctuations in new orders from month to month. In addition, we typically make inventory purchases prior to receiving customer orders. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our results for that quarter and potentially future quarters would be materially and adversely affected.

Our long-term success will depend on our ability to introduce new products. While new products typically generate little or no revenues during the first twelve months following their introduction, our revenues in subsequent periods depend upon these new products. Due to the lengthy sales cycle and additional time before our customers request volume production, significant revenues from our new products typically occur twelve to twenty-four months after product introduction. As a result, revenues from newly introduced products have, in the past, produced a small percentage of our total revenues in the year the product was introduced. See "Our Lengthy Sales Cycle Can Result in Uncertainty and Delays with Regard to Our Expected Revenues" in Item 1A, Risk Factors, in Part II of this report on Form 10-Q.

Discontinued operations

On September 20, 2012, we completed the sale of our physical layer 10GBase-T integrated circuit ("PHY") family of products pursuant to an Asset Purchase Agreement between the Company and Aquantia Corporation dated September 14, 2012. On July 6, 2012, we had also entered into an Asset Purchase Agreement (the "Entropic APA") with Entropic Communications, Inc., pursuant to which we completed the sale of our digital channel stacking switch product line within the PHY product family, including certain assets exclusively related to the product line. The operations of the PHY related business have been segregated from continuing operations and are presented as discontinued operations in our consolidated statement of operations for all periods presented.

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND JUNE 30, 2013

Net Revenues

The following table shows the revenue by type (in thousands) and as a percentage of net revenues:

	Three Months Ended June 30,				Six Months Ended June 30,				
	2014		2013		2014		2013		
PCI Express Revenue	\$	19,781	69.4%	\$	20,103	74.9%	\$	50,523	65.8%
Connectivity Revenue		8,730	30.6%		6,747	25.1%		26,311	34.2%
	\$	28,511		\$	26,850		\$	76,834	

Net revenues consist primarily of product revenues generated principally by sales of our semiconductor devices. Net revenues for the three months ended June 30, 2014 increased 6.2%, or \$1.7 million, compared to the same period in 2013. The increase was primarily due to timing of customer last time buys for some of our Connectivity products.

Net revenues for the six months ended June 30, 2014 was relatively flat compared to the same period in 2013. The increase in Connectivity revenues was due to customer last time buys and the decrease in PCI Express revenues was primarily due to lower sales of our PCI Express Gen 2 products as a result of the first quarter of 2014 temporary supply constraints due to assembly issues at one of our assembly manufacturers. These assembly issues were addressed and were not a limitation in the second quarter of 2014.

There were no direct end customers that accounted for more than 10% of net revenues. Sales to the following distributors accounted for 10% or more of net revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Excelpoint Systems Pte Ltd	27%	32%	27%	33%
Avnet, Inc.	23%	22%	24%	24%
Answer Technology, Inc.	16%	14%	15%	13%

We currently expect to see revenue growth through 2014 for our PCI Express products and continued declines of our Connectivity products after customer last time buys. Future demand for our products is uncertain and is highly dependent on general economic conditions and the demand for products that contain our chips. Customer demand for semiconductors can change quickly and unexpectedly. Our revenue levels have been highly dependent on the amount of new orders that are received for products to be delivered to the customer within the same quarter, also called “turns fill” orders. Because of the long cycle time to build our products and our lack of visibility into demand when turns fill orders are high, it is difficult to predict which products to build to match future demand. We believe the current high turns fill requirements will continue indefinitely. The high turns fill orders pattern, together with the uncertainty of product mix and pricing, makes it difficult to predict future levels of sales and profitability and may require us to carry higher levels of inventory.

Gross Margin

Gross margin represents net revenues less the cost of revenues. Cost of revenues includes the cost of (1) purchasing semiconductor devices or wafers from our independent foundries, (2) packaging, assembly and test services from our independent foundries, assembly contractors and test contractors and (3) our operating costs associated with the procurement, storage and shipment of products as allocated to production.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	in thousands			
Gross profit	\$ 16,703	\$ 15,073	\$ 31,458	\$ 30,598
Gross margin	58.6%	56.1%	59.0%	57.7%

Gross profit for the three months ended June 30, 2014 increased by 10.8%, or \$1.6 million compared to the same period in 2013 and gross margin increased 2.5 percentage points, or 4.5%. The three months ended June 30, 2014 includes the royalty accrual of \$0.2 million associated with the Internet Machines litigation, which had approximately a 1.0 percentage point impact on gross margin. The increase in absolute dollars and as a percentage was due to product and customer mix and cost reductions efforts on our PCI Express products as well as the last time buys of our Connectivity products. See Note 10 of the condensed consolidated financial statements for more information on the Internet Machines litigation.

Gross profit for the six months ended June 30, 2014 increased by 2.8%, or \$0.9 million compared to the same period in 2013 and gross margin increased 1.3 percentage points, or 2.3%. The six months ended June 30, 2014 includes the royalty accrual of \$0.5 million associated with the Internet Machines litigation, which had approximately a 1.0 percentage point impact on gross margin. The increase in absolute dollars and as a percentage was due to product and customer mix and cost reductions efforts on our PCI Express products as well as the last time buys of our Connectivity products.

Future gross profit and gross margin are highly dependent on the product and customer mix, our ability to secure cost reductions from our suppliers, provisions and sales of previously written down inventory, the position of our products in their respective life cycles and specific manufacturing costs. Accordingly, we are not able to predict future gross profit levels or gross margins with certainty. However, we do expect that in the near term gross margins will return to similar levels seen in 2013.

Research and Development Expenses

Research and development (“R&D”) expenses consist primarily of tape-out costs at our independent foundries, salaries and related costs, including share-based compensation and expenses for outside engineering consultants.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	in thousands			
R&D expenses	\$ 9,444	\$ 6,480	\$ 15,834	\$ 12,441
As a percentage of revenues	33.1%	24.1%	29.7%	23.4%

R&D expenses increased by \$3.0 million or 45.7% in the three months ended June 30, 2014 compared to the same period in 2013. The increase in R&D in absolute dollars and as a percentage of revenue was primarily due to increases in spending on tape-out related activities of \$1.1 million due to timing of projects taped-out and compensation and benefit related expenses of \$0.3 million due to the increase in average headcount of approximately 15%. In addition we made an initial payment of \$1.4 million, upon signing of the agreement, for the PCI Express Gen4 intellectual property (“IP”) that will be developed a third party IP provider. Our intention is to begin using the IP in the second half of 2014. However, we expensed this initial payment in the period in which the payment was made in accordance with the accounting guidance related to R&D costs.

R&D expenses increased by \$3.4 million or 27.3% in the six months ended June 30, 2014 compared to the same period in 2013. The increase in R&D in absolute dollars and as a percentage of revenue was primarily due to the advance payment on the PCI Express Gen4 IP of \$1.4 million and increases in spending on tape-out related activities of \$1.2 million due to timing of projects taped-out and compensation and benefit related expenses of \$0.7 million due to the increase in average headcount of approximately 13%.

We believe continued spending on research and development to develop new products is critical to our success. R&D spending will continue to fluctuate due to timing of projects and tape-out related activities.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses consist primarily of salaries and related costs, including share-based compensation, commissions to manufactures’ representatives and professional fees, as well as trade show and other promotional expenses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	in thousands			
SG&A expenses	\$ 5,844	\$ 6,804	\$ 11,941	\$ 13,223
As a percentage of revenues	20.5%	25.3%	22.4%	24.9%

SG&A expenses decreased by \$1.0 million or 14.1% in the three months ended June 30, 2014 compared to the same period in 2013. The decrease in SG&A in absolute dollars was due primarily to the 2013 accrual of \$0.9 million as a result of the Court’s post-verdict ruling in the Internet Machine’s lawsuit in June 2013.

SG&A expenses decreased by \$1.3 million or 9.7% in the six months ended June 30, 2014 compared to the same period in 2013. The decrease in SG&A in absolute dollars was due primarily to the 2013 accrual of \$0.9 million as a result of the Court’s post-verdict ruling in the Internet Machine’s lawsuit in June 2013 and the fully vested option grants in connection with the 2012 Board of Directors election, which were granted in the first quarter of 2013, while the option grants for the 2013 Board of Directors election were granted in the fourth quarter of 2013.

Acquisition and Restructuring Related Costs

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	in thousands			
Severance costs	\$ -	\$ -	\$ -	\$ 279
Deal costs	1,711	-	1,711	12
	<u>\$ 1,711</u>	<u>\$ -</u>	<u>\$ 1,711</u>	<u>\$ 291</u>

We recorded acquisition related costs of \$1.7 million in the three and six months ended June 30, 2014, for outside legal and investment banking fees associated with the pending Avago acquisition of PLX. See Note 1 of Notes to Condensed Consolidated Financial Statements for more information on the Avago transaction.

Due primarily to our entering into an agreement to be acquired by Avago, we expect to incur, in the third quarter and possibly additional future periods, significant additional expenses in connection with the transactions contemplated by the agreement and the related shareholder lawsuits. See Risk Factors below in this report under the caption “Risks Related to the Proposed Acquisition of the Company by Avago” for a discussion of risks related to the proposed acquisition.

In the six months ended June 30, 2013, we recorded approximately \$0.3 million of severance and benefit related costs, included in acquisition and restructuring related costs in the Condensed Consolidated Statement of Operations, related to the termination of 4 employees worldwide as part of the restructuring of SG&A activities as a result of the divestiture of the PHY business.

In the six months ended June 30, 2013, we recorded \$12,000 of outside legal and accounting costs associated with the wrap up of the IDT acquisition activities, which were terminated in December 2012. These expenses were also included in operating expenses under acquisition and restructuring related costs in the Condensed Consolidated Statement of Operations.

Interest Income (Expense) and Other, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	in thousands			
Interest income	\$ 9	\$ 4	\$ 18	\$ 8
Interest expense	(41)	(65)	(82)	(130)
Other income (expense)	8	6	11	(4)
	<u>\$ (24)</u>	<u>\$ (55)</u>	<u>\$ (53)</u>	<u>\$ (126)</u>

Interest income reflects interest earned on cash, cash equivalents and short-term and long-term investment balances.

Interest expense reflects interest recorded on the line of credit borrowings.

Other income (expense) includes other miscellaneous transactions and foreign currency transaction gains and losses. Other income may fluctuate significantly due to currency fluctuations.

Provision for Income Taxes

A provision for income tax of \$46,000 has been recorded for the six month period ended June 30, 2014, compared to a provision of \$145,000 for the same period in 2013. Income tax expense for the six months ended June 30, 2014 and 2013 is a result of applying the estimated annual effective tax rate to cumulative profit before taxes.

As of June 30, 2014, we have a valuation allowance against net deferred assets. While encouraged by the pretax profit earned in 2013 and in the first half of 2014 and by the favorable trend of our recent financial results, management believes it is appropriate to obtain confirmatory evidence that the improvement in our results in operations is sustainable, and the realization of at least some of the deferred income tax assets is more likely than not, before reversing a portion of the valuation allowance to earnings.

We intend to review, on a quarterly basis, the conclusions reached about the appropriate amount of our deferred income tax asset valuation allowance. If we continue to generate profits in 2014 and beyond, it is possible that the US valuation allowance position will be reversed in the foreseeable future. We expect a significant benefit to be recorded in the period the valuation allowance reversal is recorded and a significantly higher effective tax rate in periods following the valuation allowance reversal.

As of December 31, 2013, we had unrecognized tax benefits of approximately \$5.9 million of which none, if recognized, would result in a reduction of our effective tax rate. There were no material changes in the amount of unrecognized tax benefits during the six months ended June 30, 2014. Future changes in the balance of unrecognized tax benefits will have no impact on the effective tax rate as they are subject to a full valuation allowance. We do not believe the amount of our unrecognized tax benefits will significantly change within the next twelve months.

The Company is subject to taxation in the United States and various state and foreign jurisdictions. The tax years 2009 through 2012 remain open to examination by the federal and most state tax authorities. Net operating loss and tax credit carryforwards generated in prior periods remain open to examination.

Liquidity and Capital Resources

Cash and Investments

We invest excess cash predominantly in certificate of deposits and debt instruments that are highly liquid, of high-quality investment grade, and predominantly have maturities of less than one year with the intent to make such funds readily available for operating purposes. As of June 30, 2014 cash, cash equivalents, short and long-term marketable securities were \$25.7 million, an increase of \$5.3 million from \$20.4 million at December 31, 2013.

Operating Activities

	Six Months Ended June 30,	
	2014	2013
	in thousands	
Income from continuing operations, net of non-cash items	\$ 3,999	\$ 6,789
Loss from discontinued operations, net of non-cash items	-	(111)
Changes in working capital	2,479	(8,525)
Net cash provided by (used in) operating activities	<u>\$ 6,478</u>	<u>\$ (1,847)</u>

Cash provided by (used in) operating activities primarily consists of net income adjusted for certain non-cash items including depreciation, share-based compensation expense, provisions for excess and obsolete inventories, other non-cash items and the effect of changes in working capital and other activities. Cash provided by operating activities for the six months ended June 30, 2014 was \$6.5 million compared to cash used in operating activities of \$1.8 million for the same period in 2013. The increase in cash flow provided by operations was primarily due to changes in our working capital as a result of an increase in accounts payable due to the Avago acquisition and tape-out related activities late in the second quarter of 2014 as compared to larger vendor payments related to the IDT acquisition activities and employee variable compensation payments in the first quarter of 2013, which were accrued in 2012, partially offset by a decrease in income from continuing operations, net of non-cash items. Our days sales outstanding was relatively flat and our inventory increased to support customer demand.

Investing Activities

Our investing activities are primarily driven by investment of our excess cash, sales of investments and capital expenditures. Capital expenditures have generally been comprised of purchases of engineering equipment, computer hardware, software, server equipment and furniture and fixtures. The cash used in investing activities for the six months ended June 30, 2014 of \$2.5 million was due to purchases of investments (net of sales and maturities) of \$0.6 million and capital expenditures of \$1.8 million. Cash used in investing activities for the six months ended June 30, 2013 of \$3.0 million was due to purchases of investments (net of sales and maturities) of \$2.6 million and capital expenditures of \$0.4 million.

Financing Activities

Cash provided by financing activities for the six months ended June 30, 2014 of \$0.6 million was due to the proceeds from the exercise of stock options. Cash provided by financing activities for the six months ended June 30, 2013 of \$1.1 million was due to the proceeds from the exercise of stock options of \$1.4 million, partially offset by the taxes paid related to net share settlements of restricted stock units of \$0.3 million.

Obligations

As of June 30, 2014, we had the following significant contractual obligations and commercial commitments (in thousands):

	Payments due in			
	Total	Less than 1 Year	1-3 Years	More than 3 Years
Operating leases - facilities and equipment	\$ 292	\$ 202	\$ 90	\$ -
IP and Software licenses	7,334	3,617	3,517	200
Inventory purchase commitments	7,025	7,025	-	-
Borrowing against line of credit	5,000	-	5,000	-
Total cash obligations	<u>\$ 19,651</u>	<u>\$ 10,844</u>	<u>\$ 8,607</u>	<u>\$ 200</u>

On September 30, 2011, we entered into an agreement with Silicon Valley Bank to establish a two-year \$10.0 million revolving loan facility. On April 22, 2013, the agreement was amended to increase the facility to \$15.0 million and extend the maturity date to September 30, 2015. Borrowings under the credit facility bear interest at rates equal to the prime rate announced from time to time in The Wall Street Journal. As of June 30, 2014 the prime rate was 3.25%. The facility also provides for commitment, unused facility and letter-of-credit fees. As of June 30, 2014 there is \$5.0 million outstanding against the facility. In addition, the company issued an irrevocable letter of credit of \$0.8 million against the facility for the bond issued as a result of the judgment in the Internet Machines litigation. The facility is subject to certain financial covenants for EBITDA, as defined in the agreement, and a monthly quick ratio computation (PLX's cash, investments and accounts receivable divided by current liabilities). We were in compliance with all financial covenants associated with this facility as of June 30, 2014. See Note 9 of the condensed consolidated financial statements for additional information.

Based on the June 19, 2013 Court's ruling in the Internet Machines litigation, we were required to issue a bond of \$2.7 million for pre-judgment damages awarded and future royalties. As of June 30, 2014, the full \$2.7 million was accrued under other accrued expenses in our Condensed Consolidated Balance Sheet and we will continue to accrue royalties as incurred. See Note 10 of the condensed consolidated financial statements for more information on the Internet Machines litigation.

We believe that our existing resources, together with cash generated from our operations will be sufficient to meet our capital requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including the level of investment we make in new technologies and improvements to existing technologies and the levels of monthly expenses required to launch new products. To the extent that existing resources and future earnings are insufficient to fund our future activities, we may need to raise additional funds through public or private financings. Additional funds may be difficult to obtain and may not be available or, if available, we may not be able to obtain them on terms favorable to us and our stockholders.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements and accompanying notes. The U.S. Securities and Exchange Commission ("SEC") has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies which involve the use of estimates, judgments and assumptions that are significant to understanding our results. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery or customer acceptance, where applicable, has occurred, the fee is fixed or determinable, and collection is reasonably assured.

Revenue from product sales to direct customers and distributors is recognized upon shipment and transfer of risk of loss, if we believe collection is reasonably assured and all other revenue recognition criteria are met. We assess the probability of collection based on a number of factors, including past transaction history and the customer's creditworthiness. At the end of each reporting period, the sufficiency of allowances for doubtful accounts is assessed based on the age of the receivable and the individual customer's creditworthiness.

As of June 30, 2014, we offer pricing protection to two distributors whereby the Company supports the distributor's resale product margin on certain products held in the distributor's inventory. We analyze current requests for credit in process, also known as ship and debits, historical rates and amounts of credits issued and inventory at the distributor to determine the ending sales reserve required for this program. We also offer stock rotation rights to two distributors such that they can return up to a total of 5% of products purchased every six months in exchange for other PLX products of equal value. We analyze inventory at distributors, current stock rotation requests and past experience, which has historically been insignificant, to determine the ending sales reserve required at each reporting period. Provisions for reserves are charged directly against revenue and related reserves are recorded as a reduction to accounts receivable.

Inventory Valuation

We evaluate the need for potential inventory provisions by considering a combination of factors, including the life of the product, sales history, obsolescence, sales forecasts and expected sales prices. Any adverse changes to our future product demand may result in increased provisions, resulting in decreased gross margin. In addition, future sales on any of our previously written down inventory may result in increased gross margin in the period of sale.

Allowance for Doubtful Accounts

We evaluate the collectability of our accounts receivable based on length of time the receivables are past due. Generally, our customers have between thirty and forty five days to remit payment of invoices. We record reserves for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. Once we have exhausted collection efforts, we will reduce the related accounts receivable against the allowance established for that receivable. We have certain customers with individually large amounts due at any given balance sheet date. Any unanticipated change in one of those customers' creditworthiness or other matters affecting the collectability of amounts due from such customers could have a material adverse effect on our results of operations in the period in which such changes or events occur. Historically, our write-offs have been insignificant.

Goodwill

Our methodology for allocating the purchase price related to business acquisitions is determined through established valuation techniques. Goodwill is measured as the excess of the cost of the acquisition over the amounts assigned to identifiable tangible and intangible assets acquired less assumed liabilities. We have one operating segment and business reporting unit, the sales of semiconductor devices, and we perform goodwill impairment tests annually during the fourth quarter and between annual tests if indicators of potential impairment exist.

Long-lived Assets

We review long-lived assets, principally property and equipment, for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. We evaluate recoverability of assets to be held and used by comparing the carrying amount of an asset to estimated future net undiscounted cash flows generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. In addition, if we determine the useful life of an asset is shorter than we had originally estimated, we accelerate the rate of depreciation over the assets' new, shorter useful life.

Share-Based Compensation

We estimate the value of employee stock options on the date of grant using the Black-Scholes model. The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the expected stock price volatility over the term of the awards and the actual and projected employee stock option exercise behaviors. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. We calculate expected volatility using the historical volatility of stock. We estimate the amount of forfeitures at the time of grant and revise, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The fair value of employee restricted stock units is equal to the market value of our common stock on the date the award is granted.

Taxes

We account for income taxes using the asset and liability method. Deferred taxes are determined based on the differences between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. As of June 30, 2014, we have determined that negative evidence supports the need for a full valuation allowance against our net deferred tax assets. In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of a deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of sufficient future taxable income during the periods in which those temporary differences become deductible. We continue to review our conclusions about the appropriate amount of our deferred income tax asset valuation allowance in light of circumstances existing in current periods and considering the expected future period results and will maintain a full valuation until sufficient positive evidence exists to support a reversal of the valuation allowance. If we continue to generate profits in 2014 and beyond, it is possible that the US valuation allowance position will be reversed in the foreseeable future. We expect a significant benefit to be recorded in the period the valuation allowance reversal is recorded and a significantly higher effective tax rate in periods following the valuation allowance reversal.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We have an investment portfolio of fixed income securities, including amounts classified as cash equivalents, short-term investments and long-term investments of \$10.1 million at June 30, 2014. These securities are subject to interest rate fluctuations and will decrease in market value if interest rates increase.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. We invest primarily in high quality, short-term and long-term debt instruments. A hypothetical 100 basis point increase in interest rates would result in less than a \$43,000 decrease (less than 1%) in the fair value of our available-for-sale securities.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Based on their evaluation as of June 30, 2014, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions for Form 10-Q and that such disclosure controls and procedures were also effective to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls.

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter 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

The information contained under the caption "Commitments and Contingencies" in Note 10 of our notes to the consolidated financial statements included in Part I, Item 1, of this Form 10-Q is incorporated by reference into this Item 1.

ITEM 1A. RISK FACTORS

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

This quarterly report on Form 10-Q contains forward-looking statements which involve risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking statements as a result of certain factors, including those set forth below. The following risk factors have been updated from those set forth in Item 1A. of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013, and are included herein in their entirety.

RISKS RELATED TO THE PROPOSED ACQUISITION OF THE COMPANY BY AVAGO

Failure To Complete, Or Delays In Completing, The Transaction With Avago Announced On June 23, 2014, Could Materially And Adversely Affect The Company's Business, Results Of Operations, Financial Condition And Stock Price

On June 23, 2014, Avago Technologies Wireless (U.S.A.) Manufacturing Inc., a Delaware corporation ("Parent"), Pluto Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent ("Purchaser"), and PLX Technology, Inc., a Delaware corporation ("PLX") entered into an Agreement and Plan of Merger (the "Merger Agreement"). The Merger Agreement provides that, on and subject to the terms of the Merger Agreement, Purchaser will commence a tender offer (the "Offer") to purchase all of the outstanding shares (the "Shares") of PLX common stock, \$0.001 par value, at a price of \$6.50 per Share, without interest and subject to any applicable withholding taxes.

Consummation of the Offer is subject to various conditions set forth in the Merger Agreement, including, but not limited to (i) at least a majority of shares of PLX common stock then outstanding (calculated on a fully diluted basis) being tendered into the Offer, (ii) the expiration or termination of the applicable Hart-Scott-Rodino Act ("HSR Act") waiting period and compliance with the requirements under chapter VII of the Act against Restraints of Competition of 1958 of Germany, as amended, and (iii) the absence of any Company Material Adverse Effect (as defined in the Merger Agreement) with respect to PLX's business. The Offer is not subject to a financing condition.

A copy of the Merger Agreement is included as an exhibit to a Form 8-K we filed on June 23, 2014, to report the Merger Agreement, and the references in this report to the Merger Agreement are qualified in their entirety by reference to the full text of the Merger Agreement. The discussion of risks below is not an offer to sell or the solicitation of an offer to buy any securities or otherwise participate in the Offer.

Any offer will only be made through a Tender Offer Statement on Schedule TO, which contains an offer to purchase, form of letter of transmittal and other documents relating to the tender offer (collectively, the "Offer Materials"), each initially filed with the SEC by Avago on July 8, 2014. In addition, PLX filed with the SEC on July 8, 2014, a solicitation/recommendation statement on Schedule 14D-9 with respect to the Offer. These filings have been and will be further amended and supplemented from time to time. Investors and security holders are urged to carefully read these documents and the other documents relating to the transactions contemplated by the Merger Agreement when they become available because these documents will contain important information relating to the Offer and related transactions. Investors and security holders may obtain a free copy of these documents after they have been filed with the SEC, and other annual, quarterly and special reports and other information filed with the SEC by Avago Technologies Limited (the parent company of Parent) ("Avago Limited") or PLX, at the SEC's website at www.sec.gov. In addition, such materials may be obtained from PLX or Avago Limited by contacting PLX Investor Relations at (408) 774-9060 or investor-relations@plxtech.com or Avago Limited Investor Relations at (408) 435-7400 or investor.relations@avagotech.com.

PLX and Avago each filed a Premerger Notification and Report Form under the HSR Act with the Federal Trade Commission and the Antitrust Division in connection with the purchase of Shares in the Offer and the Merger on July 2, 2014. On July 17, 2014 at 11:59 p.m., New York City time, the required HSR Act waiting period with respect to the Offer and the Merger expired.

We cannot assure at this time that the parties will be able to complete the Offer and mergers contemplated by the Merger Agreement (with other related transactions contemplated by the Merger Agreement, the "Transaction") as contemplated under the Merger Agreement or at all. Risks related to the pending status of the Transaction, and/or failure to complete the Transaction, include the following:

- If the Transaction is not completed, PLX would not realize the potential benefits of the Transaction, which could have a negative effect on our stock price;
- PLX will remain liable for significant transaction costs, including legal, accounting, financial advisory and other costs relating to the Transaction, whether or not it is consummated;
- Under certain circumstances relating to superior proposals as described in the Merger Agreement (and there are no assurances as to when or whether superior proposals might be made or on what terms), PLX must pay a termination fee to Avago in the amount of \$10.85 million if Merger Agreement is terminated by PLX;

- The attention of PLX management and employees may be diverted from day-to-day operations during the period up to the completion of the merger;
- Both ordinary course and other transactions may be disrupted by uncertainty over when or if the Transaction will be completed;
- Our customers, suppliers and other third parties may seek to modify or terminate existing agreements, or delay entering into new agreements, as a result of the announcement of the Transaction;
- Under the Merger Agreement, PLX is subject to certain restrictions on the conduct of its business prior to completing the Transaction, which restrictions could adversely affect our ability to conduct business as it otherwise would have done without these restrictions; and
- Our ability to retain current key employees or attract new employees may be harmed by uncertainties associated with the Transaction.

The occurrence of any of these events individually or in combination could materially and adversely affect our business, results of operations, financial condition and stock price.

Lawsuits Have Been Filed Against PLX, The Members Of Its Board Of Directors and Avago, Challenging The Transaction, And An Adverse Judgment In Any Such Lawsuit May Prevent The Offer From Being Consummated Or The Transaction From Being Completed On The Desired Schedule, And Could Result In Significant Additional Expenses To PLX

Proposed acquisitions of publicly traded target companies, such as the Transaction, frequently lead to lawsuits filed against the parties and/or their management, based on allegations of breach of fiduciary care and loyalty allegedly resulting from a failure to maximize shareholder value, allegations that the process of entering into the transaction breach alleged duties, allegations that the documents filed by the parties with the SEC contain misstatements or omissions that should be corrected, or other claims.

Since the announcement of the Merger Agreement on June 23, 2014, nine putative class action lawsuits have been filed by shareholders against PLX, its directors and/or Avago challenging the transactions contemplated by the Merger Agreement. See Note 10 of the condensed consolidated financial statements for a description of the nine shareholder complaints filed against us.

There can be no assurance that PLX and other potential defendants in these lawsuits or future lawsuits will be successful in their defenses. An unfavorable outcome in any of the lawsuits could prevent or delay completion of the Transaction and/or result in substantial costs.

The Announcement And Pendency Of The Avago Transaction Could Cause Disruptions In The Businesses Of PLX, Which Could Have An Adverse Effect On Its Business And Financial Results, And Consequently On The Combined Company

Avago and PLX have operated and, until the consummation of the initial merger (as described in the Merger Agreement), will continue to operate, independently. Uncertainty about the effect of the Transaction on customers, suppliers and employees may have an adverse effect on PLX, and consequently on the combined company. In response to the announcement of the offer and mergers, existing or prospective customers or suppliers of PLX may:

- delay, defer or cease purchasing products or services from or providing products or services to PLX or the combined company;
- delay or defer other decisions concerning PLX or the combined company; or
- otherwise seek to change the terms on which they do business with PLX or the combined company.

Any such delays or changes to terms could materially and adversely affect the business, results of operations and financial condition of PLX or, if the Transaction is completed, the combined company.

In addition, as a result of the Transaction, current and prospective employees could experience uncertainty about their future with PLX or the combined company. These uncertainties may impair the ability of PLX to retain, recruit or motivate key personnel.

PLX Will Incur Significant Costs In Connection With The Transaction, Whether Or Not It Is Consummated

PLX will incur substantial expenses related to the Transaction, whether or not the Transaction is completed. Through June 2014, PLX has incurred direct transaction costs of approximately \$1.7 million. PLX estimates that it will incur additional investment banking fees of \$3.4 million, which is contingent upon consummation of the Transaction and direct transaction costs, which are likely to be significant, through completion. Moreover, in the event that the Merger Agreement is terminated, PLX may, under some circumstances, be required to pay Avago a \$10.85 million termination fee. Payment of these expenses by PLX as a standalone entity would adversely affect PLX's operating results and financial condition and would likely adversely affect its stock price.

Consummation of the Offer may adversely affect the liquidity of the shares of PLX common stock not tendered in the Offer

If the Offer is completed but not all shares of PLX common stock are tendered in the Offer, the number of PLX stockholders and the number of shares of PLX common stock publicly held will be greatly reduced. As a result, the closing of the Offer could adversely affect the liquidity and market value of the remaining shares of PLX common stock held by the public.

OTHER RISKS RELATING TO OUR BUSINESS

Our Operating Results May Fluctuate Significantly Due To Factors Which Are Not Within Our Control

Our quarterly operating results have fluctuated significantly in the past and are expected to fluctuate significantly in the future based on a number of factors, many of which are not under our control. Our operating expenses, which include product development costs and selling, general and administrative expenses, are relatively fixed in the short-term. If our revenues are lower than we expect because we sell fewer semiconductor devices, delay the release of new products or the announcement of new features, or for other reasons, we may not be able to quickly reduce our spending in response.

Other circumstances that can affect our operating results include:

- the timing of significant orders, order cancellations and reschedulings;
- the loss of one or more significant customers;
- introduction of products and technologies by our competitors or partners;
- the availability of production capacity at the fabrication facilities that manufacture our products;
- our significant customers could lose market share that may affect our business;
- integration of our product functionality into our customers' products;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- unexpected issues that may arise with devices in production;
- shifts in our product mix toward lower margin products;
- changes in our pricing policies or those of our competitors or suppliers, including decreases in unit average selling prices of our products;
- contractual terms of supply agreements with our customers;
- the availability and cost of materials to our suppliers;
- costs associated with third party legal actions;
- general macroeconomic conditions;
- environmental related conditions, such as natural disasters; and
- the political climate.

These factors are difficult to forecast, and these or other factors could adversely affect our business. Any shortfall in our revenues would have a direct impact on our business. In addition, fluctuations in our quarterly results could adversely affect the market price of our common stock in a manner unrelated to our long-term operating performance.

The Cyclical Nature Of The Semiconductor Industry May Lead To Significant Variances In The Demand For Our Products

In the past, the semiconductor industry has been characterized by significant downturns and wide fluctuations in supply and demand. Also, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions. This cyclicity has led to significant variances in product demand and production capacity. It has also accelerated erosion of average selling prices per unit. We may experience periodic fluctuations in our future financial results because of industry-wide conditions.

Global Economic Conditions May Continue to Have an Adverse Effect on Our Businesses and Results of Operations

In late 2008 and 2009, the severe tightening of the credit markets, turmoil in the financial markets and weakening global economy contributed to slowdowns in the industries in which we operate. Economic uncertainty exacerbated negative trends in spending and caused certain customers to push out, cancel, or refrain from placing orders, which reduced revenue. We have seen market conditions improve; however, a slowdown in the economic recovery or worsening global economic conditions may result in difficulties in obtaining capital and uncertain market conditions may lead to the inability of some customers to obtain affordable financing, resulting in lower sales. Customers with liquidity issues may lead to additional bad debt expense. These conditions may also similarly affect key suppliers, which could affect their ability to deliver parts and result in delays in the availability of product. Further, these conditions and uncertainty about future economic conditions make it challenging for us to forecast our operating results, make business decisions and identify the risks that may affect our business, financial condition and results of operations. If the current improving economic conditions are not sustained or begin to deteriorate again, or if we are not able to timely and appropriately adapt to changes resulting from the difficult macroeconomic environment, our business, financial condition or results of operations may be materially and adversely affected.

Because A Substantial Portion Of Our Net Revenues Are Generated By A Small Number Of Large Customers, If Any Of These Customers Delays Or Reduces Its Orders, Our Net Revenues And Earnings Will Be Harmed

Historically, a relatively small number of customers have accounted for a significant portion of our net revenues in any particular period. See Note 8 of the consolidated financial statements for customer concentrations.

We have no long-term volume purchase commitments from any of our significant customers. We cannot be certain that our current customers will continue to place orders with us, that orders by existing customers will continue at the levels of previous periods or that we will be able to obtain orders from new customers. In addition, some of our customers supply products to end-market purchasers and any of these end-market purchasers could choose to reduce or eliminate orders for our customers' products. This would in turn lower our customers' orders for our products.

We anticipate that sales of our products to a relatively small number of customers will continue to account for a significant portion of our net revenues. Due to these factors, the following have in the past and may in the future reduce our net revenues or earnings:

- the reduction, delay or cancellation of orders from one or more of our significant customers;
- the selection of competing products or in-house design by one or more of our current customers;
- the loss of one or more of our current customers; or
- a failure of one or more of our current customers to pay our invoices.

Intense Competition In The Markets In Which We Operate May Reduce The Demand For Or Prices Of Our Products

Competition in the semiconductor industry is intense. If our main target market, the microprocessor-based systems market, continues to grow, the number of competitors may increase significantly. In addition, new semiconductor technology may lead to new products that can perform similar functions as our products. Some of our competitors and other semiconductor companies may develop and introduce products that integrate into a single semiconductor device the functions performed by our semiconductor devices. This would eliminate the need for our products in some applications.

In addition, competition in our markets comes from companies of various sizes, many of which are significantly larger and have greater financial and other resources than we do and thus can better withstand adverse economic or market conditions. Therefore, we cannot assure you that we will be able to compete successfully in the future against existing or new competitors, and increased competition may adversely affect our business. See “Business – Products,” and “—Competition” in Part I of Item 1 of our Form 10-K for the year ended December 31, 2013.

Our Independent Manufacturers May Not Be Able To Meet Our Manufacturing Requirements

We do not manufacture any of our semiconductor devices. Therefore, we are referred to in the semiconductor industry as a “fabless” producer of semiconductors. Consequently, we depend upon third party manufacturers to produce semiconductors that meet our specifications. We currently have third party manufacturers located in China, Japan, Korea, Malaysia and Taiwan that can produce semiconductors which meet our needs. However, as the semiconductor industry continues to progress towards smaller manufacturing and design geometries, the complexities of producing semiconductors will increase. Decreasing geometries may introduce new problems and delays that may affect product development and deliveries. Due to the nature of the semiconductor industry and our status as a fabless semiconductor company, we could encounter fabrication-related problems that may affect the availability of our semiconductor devices, delay our shipments or increase our costs.

Only a small number of our semiconductor devices are currently manufactured by more than one supplier. We place our orders on a purchase order basis and do not have a long term purchase agreement with any of our existing suppliers. In the event that the supplier of a semiconductor device was unable or unwilling to continue to manufacture our products in the required volume, we would have to identify and qualify a substitute supplier. Introducing new products or transferring existing products to a new third party manufacturer or process may result in unforeseen device specification and operating problems. These problems may affect product shipments and may be costly to correct. Silicon fabrication capacity may also change, or the costs per silicon wafer may increase. Manufacturing-related problems may have a material adverse effect on our business.

Failure To Translate Design Wins Into Revenue Could Result in Delayed or Lack of Revenue Growth

We had seen strong design activity with our PCI Express Gen2 products in 2009 resulting in PCI Express revenue growth between 2010 and 2012, when these designs moved into production. We are currently seeing significantly greater design activity and potential revenue with our Gen3 products. We believe that our revenue growth over the next several years will be driven by these programs moving to production. However, if these programs do not materialize, our revenue growth may be delayed or may be quite limited or may not even occur.

Lower Demand For Our Customers’ Products Will Result In Lower Demand For Our Products

Demand for our products depends largely on the development and expansion of the high-performance microprocessor-based systems markets including networking and telecommunications, enterprise and consumer storage, imaging and industrial applications. The size and rate of growth of these microprocessor-based systems markets may in the future fluctuate significantly based on numerous factors. These factors include the adoption of alternative technologies, capital spending levels and general economic conditions. Demand for products that incorporate high-performance microprocessor-based systems may not grow.

Our Lengthy Sales Cycle Can Result In Uncertainty And Delays With Regard To Our Expected Revenues

Our customers typically perform numerous tests and extensively evaluate our products before incorporating them into their systems. The time required for test, evaluation and design of our products into a customer’s equipment can range from six to twelve months or more. It can take an additional six to twelve months or more before a customer commences volume shipments of equipment that incorporates our products. Because of this lengthy sales cycle, we may experience a delay between the time when we increase expenses for research and development and sales and marketing efforts and the time when we generate higher revenues, if any, from these expenditures.

In addition, the delays inherent in our lengthy sales cycle raise additional risks of customer decisions to cancel or change product plans. When we achieve a design win, there can be no assurance that the customer will ultimately ship products incorporating our products. Our business could be materially adversely affected if a significant customer curtails, reduces or delays orders during our sales cycle or chooses not to release products incorporating our products.

Failure To Have Our Products Designed Into The Products Of Electronic Equipment Manufacturers Will Result In Reduced Sales

Our future success depends on electronic equipment manufacturers that design our semiconductor devices into their systems. We must anticipate market trends and the price, performance and functionality requirements of current and potential future electronic equipment manufacturers and must successfully develop and manufacture products that meet these requirements. In addition, we must meet the timing requirements of these electronic equipment manufacturers and must make products available to them in sufficient quantities. These electronic equipment manufacturers could develop products that provide the same or similar functionality as one or more of our products and render these products obsolete in their applications.

We do not have purchase agreements with our customers that contain minimum purchase requirements. Instead, electronic equipment manufacturers purchase our products pursuant to short-term purchase orders that may be canceled without charge. We believe that in order to obtain broad penetration in the markets for our products, we must maintain and cultivate relationships, directly or through our distributors, with electronic equipment manufacturers that are leaders in the embedded systems markets. Accordingly, we will incur significant expenditures in order to build relationships with electronic equipment manufacturers prior to volume sales of new products. If we fail to develop relationships with additional electronic equipment manufacturers to have our products designed into new microprocessor-based systems or to develop sufficient new products to replace products that have become obsolete, our business would be materially adversely affected.

Defects In Our Products Could Increase Our Costs And Delay Our Product Shipments

Our products are complex and we use third party developed intellectual property, including serdes, in the design of our products. While we test our products, these products may still have errors, defects or bugs that we find only after commercial production has begun. We have experienced errors, defects and bugs in the past in connection with new products.

Our customers may not purchase our products if the products have reliability, quality or compatibility problems. This delay in acceptance could make it more difficult to retain our existing customers and to attract new customers. Moreover, product errors, defects or bugs could result in additional development costs, diversion of technical and other resources from our other development efforts, claims by our customers or others against us, or the loss of credibility with our current and prospective customers. In the past, the additional time required to correct defects has caused delays in product shipments and resulted in lower revenues. We may have to spend significant amounts of capital and resources to address and fix problems in new products.

We must continuously develop our products using new process technology with smaller geometries to remain competitive on a cost and performance basis. Migrating to new technologies is a challenging task requiring new design skills, methods and tools and is difficult to achieve.

Failure Of Our Products To Gain Market Acceptance Would Adversely Affect Our Financial Condition

We believe that our growth prospects depend upon our ability to gain customer acceptance of our products and technology. Market acceptance of products depends upon numerous factors, including compatibility with other products, adoption of relevant interconnect standards, perceived advantages over competing products and the level of customer service available to support such products. There can be no assurance that growth in sales of new products will continue or that we will be successful in obtaining broad market acceptance of our products and technology.

We expect to spend a significant amount of time and resources to develop new products and refine existing products. In light of the long product development cycles inherent in our industry, these expenditures will be made well in advance of the prospect of deriving revenues from the sale of any new products. Our ability to commercially introduce and successfully market any new products is subject to a wide variety of challenges during this development cycle, including start-up bugs, design defects and other matters that could delay introduction of these products to the marketplace. In addition, since our customers are not obligated by long-term contracts to purchase our products, our anticipated product orders may not materialize, or orders that do materialize may be cancelled. As a result, if we do not achieve market acceptance of new products, we may not be able to realize sufficient sales of our products in order to recoup research and development expenditures. The failure of any of our new products to achieve market acceptance would harm our business, financial condition, results of operation and cash flows.

A Large Portion Of Our Revenues Is Derived From Sales To Third-Party Distributors Who May Terminate Their Relationships With Us At Any Time

We depend on distributors to sell a significant portion of our products. Sales through distributors for the six months ended June 30, 2014 and 2013 accounted for approximately 86% and 87%, respectively, of our net revenues. Some of our distributors also market and sell competing products. Distributors may terminate their relationships with us at any time. Our future performance will depend in part on our ability to attract additional distributors that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products. We may lose one or more of our current distributors or may not be able to recruit additional or replacement distributors. The loss of one or more of our major distributors could have a material adverse effect on our business, as we may not be successful in servicing our customers directly or through manufacturers' representatives.

The Demand For Our Products Depends Upon Our Ability To Support Evolving Industry Standards

A majority of our revenues are derived from sales of products, which rely on the PCI Express, PCI and USB standards. If markets move away from these standards and begin using new standards, we may not be able to successfully design and manufacture new products that use these new standards. There is also the risk that new products we develop in response to new standards may not be accepted in the market. In addition, these standards are continuously evolving, and we may not be able to modify our products to address new specifications. Any of these events would have a material adverse effect on our business.

We Must Make Significant Research And Development Expenditures Prior To Generating Revenues From Products

To establish market acceptance of a new semiconductor device, we must dedicate significant resources to research and development, production and sales and marketing. We incur substantial costs in developing, manufacturing and selling a new product, which often significantly precede meaningful revenues from the sale of this product. Consequently, new products can require significant time and investment to achieve profitability. Investors should understand that our efforts to introduce new semiconductor devices or other products or services may not be successful or profitable. In addition, products or technologies developed by others may render our products or technologies obsolete or noncompetitive.

We record as expenses the costs related to the development of new semiconductor devices and other products as these expenses are incurred. As a result, our profitability from quarter to quarter and from year to year may be adversely affected by the number and timing of our new product launches in any period and the level of acceptance gained by these products.

We Could Lose Key Personnel Due To Competitive Market Conditions And Attrition

Our success depends to a significant extent upon our senior management and key technical and sales personnel. The loss of one or more of these employees could have a material adverse effect on our business. We do not have employment contracts with any of our executive officers.

Our success also depends on our ability to attract and retain qualified technical, sales and marketing, customer support, financial and accounting, and managerial personnel. Competition for such personnel in the semiconductor industry is intense, and we may not be able to retain our key personnel or to attract, assimilate or retain other highly qualified personnel in the future. In addition, we may lose key personnel due to attrition, including health, family and other reasons. We have experienced, and may continue to experience, difficulty in hiring and retaining candidates with appropriate qualifications. If we do not succeed in hiring and retaining candidates with appropriate qualifications, our business could be materially adversely affected.

The Successful Marketing And Sales Of Our Products Depend Upon Our Third Party Relationships, Which Are Not Supported By Written Agreements

When marketing and selling our semiconductor devices, we believe we enjoy a competitive advantage based on the availability of development tools offered by third parties. These development tools are used principally for the design of other parts of the microprocessor-based system but also work with our products. We will lose this advantage if these third party tool vendors cease to provide these tools for existing products or do not offer them for our future products. This event could have a material adverse effect on our business. We have no written agreements with these third parties, and these parties could choose to stop providing these tools at any time.

Our Limited Ability To Protect Our Intellectual Property And Proprietary Rights Could Adversely Affect Our Competitive Position

Our future success and competitive position depend upon our ability to obtain and maintain proprietary technology used in our principal products. Currently, we have limited protection of our intellectual property in the form of patents and rely instead on trade secret protection. Our existing or future patents may be invalidated, circumvented, challenged or licensed to others. The rights granted thereunder may not provide competitive advantages to us. In addition, our future patent applications may not be issued with the scope of the claims sought by us, if at all. Furthermore, others may develop technologies that are similar or superior to our technology, duplicate our technology or design around the patents owned or licensed by us. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in foreign countries where we may need protection. We cannot be sure that steps taken by us to protect our technology will prevent misappropriation of the technology.

We may from time to time receive notifications of claims that we may be infringing patents or other intellectual property rights owned by third parties.

See Note 10 of the condensed consolidated financial statements for a description of the four lawsuits filed against us by a company alleging patent infringement.

During the course of the litigations as well as any other future intellectual property litigations, we will incur costs associated with defending or prosecuting these matters. These litigations could also divert the efforts of our technical and management personnel, whether or not they are determined in our favor. In addition, if it is determined in such a litigation that we have infringed the intellectual property rights of others, we may not be able to develop or acquire non-infringing technology or procure licenses to the infringing technology under reasonable terms. This could require expenditures by us of substantial time and other resources. Any of these developments would have a material adverse effect on our business.

Acquisitions Could Adversely Affect Our Financial Condition And Could Expose Us To Unanticipated Liabilities

As part of our business strategy, we expect to continue to review acquisition prospects that would complement our existing product offerings, improve market coverage or enhance our technological capabilities. Potential future acquisitions could result in any or all of the following:

- potentially dilutive issuances of equity securities;
- large acquisition-related write-offs;
- potential patent and trademark infringement claims against the acquired company;
- the incurrence of debt and contingent liabilities or amortization expenses related to other intangible assets;
- difficulties in the assimilation of operations, personnel, technologies, products and the information systems of the acquired companies;
- the incurrence of additional operating losses and expenses of companies we may acquire;
- possible delay or failure to achieve expected synergies;
- diversion of management's attention from other business concerns;
- risks of entering geographic and business markets in which we have no or limited prior experience;
- potential loss of key employees; and
- potential lawsuits from shareholders.

Because We Sell Our Products To Customers Outside Of The United States And Because Our Products Are Incorporated With Products Of Others That Are Sold Outside Of The United States We Face Foreign Business, Political And Economic Risks

Sales outside of the United States accounted for 82% and 80% of our net revenues in the six months ended June 30, 2014 and 2013, respectively. Sales outside of the United States may fluctuate in future periods and may continue to account for a large portion of our revenues. In addition, equipment manufacturers who incorporate our products into their products sell their products outside of the United States, thereby exposing us indirectly to foreign risks. Further, most of our semiconductor products are manufactured outside of the United States. Accordingly, we are subject to international risks, including:

- difficulties in managing distributors;

- difficulties in staffing and managing foreign subsidiary and branch operations;
- political and economic instability;
- foreign currency exchange fluctuations;
- difficulties in accounts receivable collections;
- potentially adverse tax consequences;
- timing and availability of export licenses;
- changes in regulatory requirements, tariffs and other barriers;
- difficulties in obtaining governmental approvals for telecommunications and other products; and
- the burden of complying with complex foreign laws and treaties.

Because sales of our products have been denominated to date exclusively in United States dollars, increases in the value of the United States dollar will increase the price of our products so that they become relatively more expensive to customers in the local currency of a particular country, which could lead to a reduction in sales and profitability in that country.

We May Be Required To Record A Significant Charge To Earnings If Our Goodwill Or Other Long Lived Asset Become Impaired

Under generally accepted accounting principles, we review our long lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment annually during the fourth quarter and between annual tests in certain circumstances. Factors that may be considered a change in circumstances, indicating that the carrying value of our goodwill or other long lived assets may not be recoverable, include a persistent decline in stock price and market capitalization, reduced future cash flow estimates and slower growth rates in our industry. We have recorded goodwill related to prior acquisitions, and may do so in connection with any potential future acquisitions. We may be required to record a significant charge in our financial statements during the period in which any additional impairment of our goodwill or other long lived assets is determined, which would adversely impact our results of operations.

Our Business Could Be Materially Adversely Affected As A Result Of Natural Disasters, Acts Of War Or Terrorism

Our operations and those of our suppliers and customers are vulnerable to interruption by fire, earthquake, flood and other natural disasters, as well as act of terrorism, war and other events beyond our control. If such events were to occur, it could result in a significant reduction of end-customer demand and/or availability of materials, a disruption of the global supply chain and an increase in the cost of products that we purchase. Any of these events would have a material adverse effect on our business.

Our Principal Stockholders Have Significant Voting Power And May Take Actions That May Not Be In The Best Interests Of Our Other Stockholders

Our executive officers, directors and other principal stockholders, in the aggregate, beneficially own a substantial amount of our outstanding common stock. Although these stockholders do not have majority control, they currently have, and likely will continue to have, significant influence with respect to the election of our directors and approval or disapproval of our significant corporate actions. This influence over our affairs might be adverse to the interests of other stockholders. In addition, the voting power of these stockholders could have the effect of delaying or preventing a change in control of PLX.

The Anti-Takeover Provisions In Our Certificate of Incorporation And Bylaws Could Adversely Affect The Rights Of The Holders Of Our Common Stock

Anti-takeover provisions of Delaware law, our Certificate of Incorporation and our Bylaws may make a change in control of PLX more difficult, even if a change in control would be beneficial to the stockholders. These provisions may allow the Board of Directors to prevent changes in the management and control of PLX.

As part of our anti-takeover devices, our Board of Directors has the ability to determine the terms of preferred stock and issue preferred stock without the approval of the holders of the common stock. Our Certificate of Incorporation allows the issuance of up to 5,000,000 shares of preferred stock. There are no shares of preferred stock outstanding. However, because the rights and preferences of any series of preferred stock may be set by the Board of Directors in its sole discretion without approval of the holders of the common stock, the rights and preferences of this preferred stock may be superior to those of the common stock. Accordingly, the rights of the holders of common stock may be adversely affected. Consistent with Delaware law, our Board of Directors may adopt additional anti-takeover measures in the future.

ITEM 6. EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of June 23, 2014, between Avago Technologies Wireless (U.S.A.) Manufacturing Inc., Pluto Merger Sub, Inc. and PLX Technology, Inc.* ⁽¹⁾
10.1	Amended and Restated PLX Severance Plan for Executive Management.** ⁽¹⁾
10.2	Executive Officer Retention Agreement between PLX Technology, Inc. and David K. Raun.** ⁽¹⁾
10.3	Executive Officer Retention Agreement between PLX Technology, Inc. and Arthur O. Whipple.** ⁽¹⁾
10.4	Executive Officer Retention Agreement between PLX Technology, Inc. and Gene Schaeffer.** ⁽¹⁾
10.5	Executive Officer Retention Agreement between PLX Technology, Inc. and Michael Grubisich.** ⁽¹⁾
10.6	Executive Officer Retention Agreement between PLX Technology, Inc. and Vijay Meduri.** ⁽¹⁾
10.7	Executive Officer Retention Agreement between PLX Technology, Inc. and Larry Chisvin.** ⁽¹⁾
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, Chapter 63 of Title 18, United States Code, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, Chapter 63 of Title 18, United States Code, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Tender and Support Agreement, dated as of June 23, 2014, between Avago Technologies Wireless (U.S.A.) Manufacturing Inc., Pluto Merger Sub, Inc. and the directors and officers of PLX Technology, Inc. party thereto.* ⁽¹⁾
99.3	Tender and Support Agreement, dated as of June 23, 2014, between Avago Technologies Wireless (U.S.A.) Manufacturing Inc., Pluto Merger Sub, Inc. and the stockholders of PLX Technology, Inc. party thereto.* ⁽¹⁾
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Attached as the identically numbered exhibit to PLX's Current Report on Form 8-K, filed on June 23, 2014, and incorporated herein by reference.

* Except as filed with PLX's Current Report on Form 8-K, filed on June 23, 2014, the exhibits and schedules to the agreement, as set forth in the agreement, have not been filed pursuant to Item 601(b)(2) of Regulation S-K. PLX agrees to furnish supplementally a copy of any omitted exhibit or schedule to the Securities and Exchange Commission upon request.

** Management contract or compensatory plan or arrangement.

SIGNATURE

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.

PLX TECHNOLOGY, INC.

Date: August 7, 2014

By /s/ Arthur O. Whipple
Arthur O. Whipple
Chief Financial Officer
(Principal Financial Officer and duly authorized signatory)

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** Management contract or compensatory plan or arrangement.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David K. Raun, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PLX Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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.

Dated: August 7, 2014

/s/ David K. Raun

David K. Raun

Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Arthur O. Whipple, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PLX Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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.

Dated: August 7, 2014

/s/ Arthur O. Whipple
Arthur O. Whipple
Chief Financial Officer

**CERTIFICATION 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 of PLX Technology, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2014 as filed with the Securities and Exchange Commission (the "Report"), I, David K. Raun, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, 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 at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: August 7, 2014

By: /s/ David K. Raun
David K. Raun
Chief Executive Officer

**CERTIFICATION 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 of PLX Technology, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2014 as filed with the Securities and Exchange Commission (the "Report"), I, Arthur O. Whipple, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, 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 at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: August 7, 2014

By: /s/ Arthur O. Whipple
Arthur O. Whipple
Chief Financial Officer
