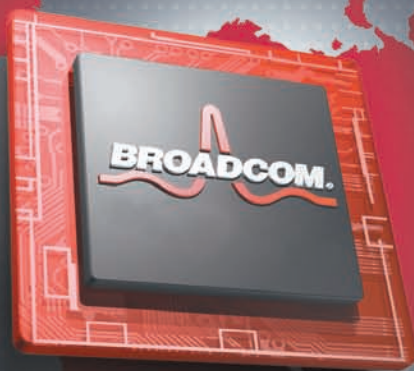




Broadcom Corporation 2005 Annual Report



Connecting
everything®



Broadcom's technologies and products help connect the world, enabling better, faster and more cost-effective communications.

Broadcom's Three Major Target Markets

Broadband
Communications



Enterprise
Networking



Mobile & Wireless



About Broadcom

Broadcom Corporation is a global leader in semiconductors for wired and wireless communications. Our products enable the delivery of voice, video, data and multimedia to and throughout the home, the office and the mobile environment. Broadcom provides the industry's broadest portfolio of state-of-the-art system-on-a-chip and software solutions to manufacturers of computing and networking equipment, digital entertainment and broadband access products, and mobile devices. These solutions support our core mission: Connecting everything®.

Founded in 1991, Broadcom is one of the world's largest fabless semiconductor companies, with annual revenue of more than \$2.5 billion. The company is headquartered in Irvine, California, and has offices and research facilities in North America, Asia and Europe. Broadcom Class A shares trade on the NASDAQ National Market® under the symbol BRCM.

To Our Shareholders

2005 was a bellwether year for Broadcom, a year in which a confluence of trends in global markets helped to drive our success. The overarching themes behind these trends can be summed up in two words: communications and convergence. At home, at work or while mobile, users want to be connected – whether over a wired connection via an Ethernet network or broadband modem, or wirelessly via a Wi-Fi®, Bluetooth® or cellular connection. Consumers and businesses are also seeking better, faster, more cost-effective ways to receive and transmit voice, video, data and multimedia.

This desire for a richer communications experience is driving the convergence of technologies and functions within devices, equipment and networks. Makers of communications products – from cellular phones to home wireless routers to cable modems – are striving to incorporate more functionality and features into their equipment. At the same time, network providers, such as cable, telephone, cellular and satellite operators, are upgrading their networks to be able to offer seamless delivery of increasingly complex levels of electronic information across many different platforms.

In 2005 we continued to be in the right place, at the right time, with the right products to supply a very strong customer base – companies that are leaders in their markets – with the products and technologies needed to help meet these global communications demands. As we approach our ninth year as a public company, our recipe for success has remained constant even as we have continued to add new technology ingredients to our ever-expanding product portfolio. The recipe is straightforward: identify and aggressively pursue new, high-growth end markets; constantly add value and features to products for our existing markets; commit significant investment dollars for research and development, funding both internal engineering efforts and strategic acquisitions of best-in-class early-stage companies; provide superior

engineering and manufacturing execution; retain and hire best-in-class employees; and maintain an unwavering commitment to provide our customers with innovative, cost-effective technology that allows them to offer cutting-edge products.

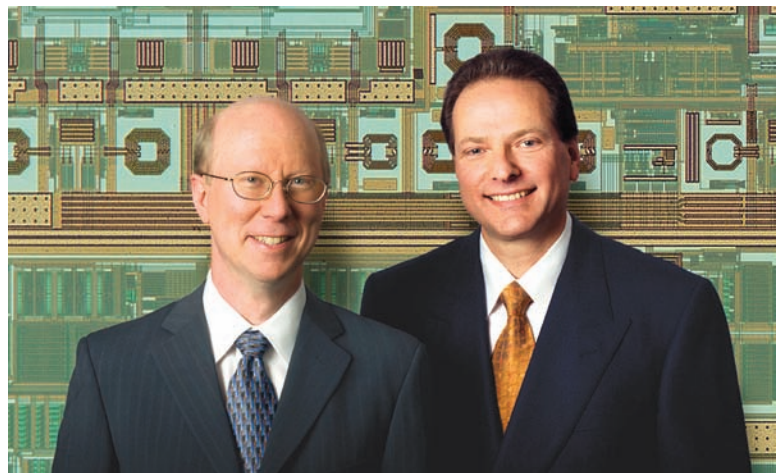
The proof of the effectiveness of our approach is in the financial results. In 2005 we achieved record net revenue of more than \$2.67 billion, an 11.3 percent increase over our net revenue for 2004. In accordance with GAAP, or generally accepted accounting principles, our net income in 2005 was \$411.7 million, up from \$218.7 million in 2004. Broadcom's cash and marketable securities increased in 2005 by approximately \$600 million, to reach a total of \$1.87 billion by the end of the year. As we exited 2005, our annualized revenue per employee was over \$765,000, one of the highest productivity levels in

the industry and evidence that we not only continued to outpace peer companies in our ability to grow revenue but also did so efficiently.

Following are some thumbnail highlights from our three target markets:

Broadband Products

Continuing to build upon our strong positions in the broadband access markets, and to help drive the continuing evolution of the residential television experience, Broadcom introduced several new products designed to facilitate the next generation of digital cable and satellite set-top box devices and high-definition television and DVD players. Our new solutions for digital television and high-definition AVC (advanced video compression) technology, introduced in 2005, provide significant advantages to makers of consumer video equipment, as well



Scott McGregor

Henry Samueli

Partial die photo of the BCM2055, a multi-band 2.4/5 GHz IEEE 802.11n draft standard-compliant CMOS MIMO transceiver

as to cable and satellite service providers. Existing broadband networks are able to transmit increasing amounts of data into the home because of these new chips. We also introduced new products for the DSL and cable modem markets, making available solutions that will allow telecommunications service providers to competitively offer "triple play" services of voice, video and data over their existing infrastructures.

Mobile & Wireless Products

Demand for Broadcom's mobile and wireless solutions grew significantly in 2005, with many of our products achieving mass adoption by the top names in mobile communications. A number of Tier I cellular phone makers integrated our Bluetooth technology into their cutting-edge mobile phones, and a major game provider selected our Wi-Fi technology for a new game console. Broadcom technology also contributed to ease-of-use for wireless devices, with major device manufacturers adopting our B*LINK™ Bluetooth software and SecureEasySetup™ Wi-Fi technology. Our mobile multimedia processor technology was incorporated into one of the most exciting portable media players on the market, and we also made strides in the Voice over Internet Protocol (VoIP) market, introducing innovative VoIP chips for Gigabit Ethernet networks and wireless applications.

Enterprise Networking Products

In our Enterprise Networking target markets, equipment makers relied on Broadcom® products as large and small businesses continued to migrate their networks to Gigabit Ethernet technology. With our leadership position and product depth and breadth, Broadcom experienced strong revenue growth on both the client and infrastructure sides. Highlights for 2005 included the launch of our StrataXGS® III switch architecture, which features the world's fastest, highest performing family of fully integrated Ethernet switch chips and provides equipment makers with the ability to address the cost and performance needs of corporate network managers. Additionally, Broadcom introduced the industry's only single-chip Gigabit Ethernet controller products, known as converged network interface controllers, or C-NICs, that incorporate a TCP/IP offload engine (TOE) – which significantly increases server system throughput by offloading communications and network functions from the CPU – as well as other state-of-the-art features. Broadcom has shipped three times as many Gigabit Ethernet controllers as our next closest competitor.

Among other notable accomplishments during the year, Broadcom continued to build its international presence, adding sales offices and design centers in Asia and Europe. We also expanded our Board of Directors by

adding two new members, Maureen E. Grzelakowski and Nancy H. Handel, who together offer many years of experience in various technology markets, finance, operations and strategic leadership. During the year, we also made several strategic acquisitions, including Zeevo, a provider of chip solutions for Bluetooth wireless headsets; Silquent Technologies, a developer of 10 Gigabit Ethernet network interface controllers; and Athena Semiconductors, a developer of mobile digital television tuner and low power Wi-Fi technologies.

As we proceed through 2006, we are in a strong position to continue to take advantage of the numerous opportunities resulting from the ongoing evolution of global communications, serving existing markets and addressing promising newer areas such as digital TV, third generation (3G) cellular phones, next generation IEEE 802.11n standards-compliant wireless LANs, and AVC.

In closing, we once again pay tribute to our employees, whose hard work and unique determination underpin our track record of success. We believe that we have the best employees in the industry. From engineering to marketing and sales to general administration, our great team is responsible for making Broadcom a leader in highly competitive markets. We thank them for their dedication and commitment to our shared goal: to be the world's leading communications semiconductor company. We also gratefully acknowledge our customers, whose devices and equipment make the complex functionality of our products real to millions of people, and extend our appreciation to Broadcom's suppliers, key partners in the drive to delight our customers. Finally, we thank our shareholders, who have collectively recognized Broadcom's vision and global opportunities.

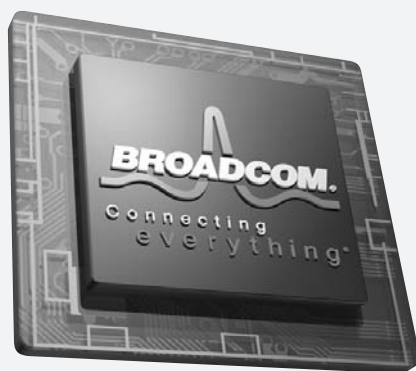


Scott A. McGregor
President and
Chief Executive Officer
and Director



Henry Samueli, Ph.D.
Chairman of the Board
and Chief Technical Officer

March 2006



Broadcom Corporation
Annual Report on Form 10-K
for the
Year Ended December 31, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

or

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

For the transition period from _____ to _____

Commission file number 000-23993



Broadcom Corporation

(Exact Name of Registrant as Specified in Its Charter)

California

(State or Other Jurisdiction
of Incorporation or Organization)

33-0480482

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

16215 Alton Parkway

Irvine, California 92618-3616

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (949) 450-8700

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Class A common stock

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

The aggregate market value of the registrant's common stock, \$0.0001 par value per share, held by non-affiliates of the registrant on June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$10.081 billion (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

The registrant has two classes of common stock authorized, Class A common stock and Class B common stock. The rights, preferences and privileges of each class of common stock are substantially identical except for voting rights. Shares of Class B common stock are not publicly traded but are convertible at any time into shares of Class A common stock on a one-for-one basis. As of December 31, 2005 there were 297.9 million shares of Class A common stock and 51.7 million shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement (the "Proxy Statement") for the 2006 Annual Meeting of Shareholders to be filed on or before March 31, 2006.

Broadcom®, the pulse logo, 54g®, Blutoonium®, BroadVoice®, NetXtreme®, QAMLink®, QuadSquad®, SiByte®, StrataSwitch®, StrataXGS®, V-thernet®, Videocore®, 125 High Speed Mode™, AirForce™, BladeRunner™, BroadRange™, CableChecker™, CryptoNetX™, FirePath™, InConcert™, LoopDTech™, NetLink™, NetXtreme II™, ROBOSwitch™, ROBOSwitch-plus™, ROBO-HS™, SecureEasySetup™, StrataSwitch II™, StrataXGS III™ and SystemI/O™ are among the trademarks of Broadcom Corporation and/or its affiliates in the United States, certain other countries and/or the EU. Any other trademarks or trade names mentioned are the property of their respective owners.

BROADCOM CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

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CAUTIONARY STATEMENT

All statements included or incorporated by reference in this Report, other than statements or characterizations of historical fact, are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements concerning projected net revenue, costs and expenses and gross margin; our accounting estimates, assumptions and judgments; the impact of new accounting rules related to the expensing of stock options on our future reported results; our success in pending litigation; the demand for our products; the effect that seasonality and volume fluctuations in the demand for our customers' consumer-oriented products will have on our quarterly operating results; our dependence on a few key customers for a substantial portion of our revenue; our ability to scale our operations in response to changes in demand for existing products and services or the demand for new products requested by our customers; the competitive nature of and anticipated growth in our markets; our ability to migrate to smaller process geometries; manufacturing, assembly and test capacity; our ability to consummate acquisitions and integrate their operations successfully; our prospective needs for additional capital; inventory and accounts receivable levels; and the level of accrued rebates. These forward-looking statements are based on our current expectations, estimates and projections about our industry and business, management's beliefs, and certain assumptions made by us, all of which are subject to change. Forward-looking statements can often be identified by words such as "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "should," "would," "could," "potential," "continue," "ongoing," similar expressions, and variations or negatives of these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, some of which are listed under "Risk Factors" in Item 1A of this Report. These forward-looking statements speak only as of the date of this Report. We undertake no obligation to revise or update publicly any forward-looking statement for any reason, except as otherwise required by law.

PART I

Item 1. *Business*

Overview

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

Broadcom was incorporated in California in August 1991. Our principal executive offices are located at 16215 Alton Parkway, Irvine, California 92618-3616, and our telephone number at that location is 949.450.8700. Our Internet address is www.broadcom.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other Securities and Exchange Commission, or SEC, filings are available free of charge through our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Our Class A common stock trades on the NASDAQ National Market® under the symbol BRCM. The inclusion of our website address in this Report does not include or incorporate by reference into this Report any information on our website.

Industry Environment and Our Business

Over the past two decades communications technologies have evolved dramatically in response to the proliferation of the Internet and the emergence of new data-intensive computing and communications

applications. These applications include, among others, high-speed Internet web browsing, wireless networking, high definition television and DVD players, VoIP-enabled products, sophisticated Gigabit Ethernet corporate networks, portable media players that are able to play both audio and video, cellular handsets that act as a camera or camcorder, handle email and surf the Internet, and mobile TV and game platforms and other wireless-enabled consumer electronics and peripherals. This evolution has also changed the ways in which we communicate. Consumers and businesses continue to seek faster, more cost-effective ways to receive and transmit voice, video, data and multimedia to and throughout the home, the office and the mobile environment. We can now access and communicate information via wired and wireless networks through a variety of electronic devices, including personal desktop and laptop computers, digital cable and satellite set-top boxes, high definition televisions, handheld computing devices such as personal digital assistants, or PDAs, and cellular phones. These applications and devices require increasingly higher processing speeds and information transfer rates within the computing systems and the data storage devices that support them and across the network communication infrastructures that serve them.

This evolution has inspired equipment manufacturers and service providers to develop and expand existing wired and wireless communications markets, and has created the need for new generations of integrated circuits. Integrated circuits, or chips, are made using semiconductor wafers imprinted with a network of electronic components. They are designed to perform various functions such as processing electronic signals, controlling electronic system functions, and processing and storing data. Today all electronic products use integrated circuits, which are essential components of personal computers, wired and wireless voice and data communications devices, networking products and home entertainment equipment.

The broadband transmission of digital information over existing wired and wireless infrastructures requires very sophisticated semiconductor solutions to perform critical systems functions such as complex signal processing, converting digital data to and from analog signals, and switching and routing of packets of information over Internet Protocol, or IP, -based networks. Solutions that are based on multiple discrete analog and digital chips generally cannot achieve the cost-effectiveness, performance and reliability required by today's communications markets. These requirements are best addressed by new generations of highly integrated mixed-signal devices that combine complex analog, digital, and in many cases, radio frequency functions onto a single integrated circuit, and can be manufactured in high volumes using cost-effective process technologies.

Target Markets and Broadcom® Products

We design, develop and supply a diverse portfolio of products targeted to a variety of wired and wireless communications market. Our semiconductor and software solutions are ubiquitous, embedded in cable and DSL modems and digital set-top boxes in the home, digital televisions, high definition DVD players, networking equipment in the enterprise, wireless-enabled laptop and desktop computers, and advanced PDAs and cellular phones, among other wired and wireless equipment.

The following is a brief description of each of our target markets and the system-on-a-chip and software solutions that we provide for each market.

Broadband Communications

Broadcom offers manufacturers a range of broadband communications and consumer electronics systems-on-a-chip that enable voice, video and data services over residential wired and wireless networks. These highly integrated silicon solutions continue to enable advanced system solutions, which include broadband modems and residential gateways, digital cable, satellite and IP set-top boxes and media servers, high definition and digital televisions, and HD DVD players and personal video recording devices.

Cable Modems

Unlike traditional dial-up modems that provide online access through the telephone system, cable modems provide users high-speed Internet access through a cable television network. Although cable networks were originally established to deliver television programming to subscribers' homes, cable television operators have generally upgraded their systems to support two-way communications, high-speed Internet access and

telecommuting through the use of cable modems. These modems are designed to achieve downstream transmission speeds of up to 43 megabits per second, or Mbps (North American standard), or 56 Mbps (international standard), and upstream transmission to the network at speeds of up to 30 Mbps. The speeds achieved by cable modems are nearly 1,000 times faster than the fastest analog telephone modems, which transmit downstream at up to 56 kilobits per second, or Kbps, and upstream at up to 28.8 Kbps. Cable modems typically connect to a user's PC through a standard 10/100BASE-T Ethernet card or Universal Serial Bus, also known as a USB, connection. A device called a cable modem termination system, or CMTS, located at a local cable operator's network hub, communicates through television channels to cable modems in subscribers' homes and controls access to cable modems on the network.

The cable industry's adoption of an open standard, the Data Over Cable Service Interface Specification, commonly known as DOCSIS®, has made possible interoperability among various manufacturers' cable modems and CMTS equipment used by different cable networks. The first specification, DOCSIS 1.0, was adopted in 1997 and enabled the cost-effective deployment of cable modems. In 1998 the DOCSIS 1.1 specification was announced. This specification enhanced DOCSIS 1.0 to include support for cable telephony using VoIP technology, streaming video and managed data services. In 2002 DOCSIS 2.0 was approved. DOCSIS 2.0 adds support for higher upstream transmission speeds of up to 30 Mbps and more symmetric IP services, and provides extra capacity for cable telephony. The recently released DOCSIS 3.0 specification, which is currently under development, provides enhanced data rates and security, while maintaining backwards compatibility with prior standards.

The high speeds of today's cable modems can enable an entirely new generation of multimedia-rich content over the Internet and allow cable operators to expand their traditional video product offerings to include data and telephone services. The adoption of cable modem services and the continued proliferation of homes with multiple PCs have also generated the need for residential networking. Cable television operators have recognized the opportunity to include this feature in the equipment they utilize for cable modem services through either home telephone line or wireless solutions, and the cable industry has created a specification called CableHome™ that defines how a home intranet interoperates with a cable operator's Internet service.

We offer integrated semiconductor solutions for cable modems and cable modem termination systems. We currently have a leading market position in both equipment areas, with an extensive product offering for the high-speed, two-way transmission of voice, video and data services to residential customers. We offer a complete system-level solution that not only includes integrated circuits, but also reference design hardware and a full software suite to support our customers' needs and accelerate their time to market.

Cable Modem Solutions. All of our cable modem chips are built around our QAMLink® DOCSIS-compliant transceiver and media access controller, or MAC, technologies. These technologies enable downstream data rates up to 56 Mbps and upstream data rates up to 30 Mbps and are compliant with DOCSIS versions 1.0, 1.1 and 2.0. These devices provide a complete DOCSIS system solution in silicon, enabling quality of service to support constant bit rate services like VoIP and video streaming.

Residential Broadband Gateway Solutions. The levels of integration and performance that we continue to achieve in our cable modem chips are reducing the cost and size of cable modems while providing consumers with easy to use features and seamless integration to other transmission media. As a result, cable modem functionality is evolving into a small silicon core that can be incorporated into other consumer devices for broader distribution of IP-based services throughout the home. Broadcom offers residential broadband gateway solutions that bring together a range of capabilities, including those for cable modems, digital set-top boxes, home networking, VoIP and Ethernet connectivity. These products allow cable operators worldwide to provide residential broadband gateways capable of delivering digital telephone service via the PacketCable™ specification, IP video, and cable modem Internet services, as well as data over in-home Ethernet or wireless networks.

CMTS Solutions. We have a complete end-to-end DOCSIS 1.0, 1.1, 2.0 and 3.0 compliant cable modem semiconductor solution for both head-end and subscriber locations. Our CMTS chipset consists of downstream and upstream physical layer, or PHY, devices and a DOCSIS MAC. This cable modem termination system enables the exchange of information to and from the subscriber location, making it a key element in the delivery of broadband access over cable.

DSL

Digital subscriber line technologies, commonly known as DSL, represent a family of broadband technologies that use a greater range of frequencies over existing telephone lines than traditional telephone services. This provides greater bandwidth to send and receive information. DSL speeds range from 128 Kbps to 52 Mbps depending upon the particular DSL standard and the distance between the central office and the subscriber. These data rates allow local exchange carriers to provide, and end users to receive, a wide range of new broadband services.

DSL technology has a number of standards or line codes used worldwide. We support all standards-based line codes, such as asymmetric DSL, or ADSL, ADSL2, ADSL2+ and very-high-speed DSL, or VDSL, including the standard Annexes used in North America, Europe, Japan and China. In addition, we provide end-to-end technology, with solutions designed for both customer premises equipment, or CPE, and central office applications. Our DSL technologies enable local exchange carriers and enterprise networking vendors to deliver bundled broadband services, such as digital video, high-speed Internet access, VoIP, video teleconferencing and IP data business services, over existing telephone lines.

DSL Modem and Residential Gateway Solutions. For DSL CPE applications, we provide products that address the wide variety of local area network, or LAN, connectivity options, including Ethernet, USB-powered solutions, VoIP-enabled access devices and IEEE 802.11 wireless access points with multiple Ethernet ports. These solutions also provide a fully scalable architecture to address emerging value-added services such as in-home voice and video distribution. Wide area network connectivity is provided using integrated, standards-compliant PHY technology.

DSL Central Office Solutions. We also provide highly integrated semiconductor solutions for DSL central office applications. Our BladeRunner™ high-density central office DSL chipset supports all worldwide DSL standards using our proprietary Firepath™ 64-bit digital signal processor. We believe these solutions will enable equipment manufacturers of digital subscriber line access multiplexers, or DSLAMs, and next generation digital loop carriers to offer a significant increase in the number of DSL connections that can be supported within telecommunication companies' tight heat, power and space constraints. We also provide the inter-networking software that is enabling DSLAM technology to transition from Asynchronous Transfer Mode to Internet Protocol.

VDSL Solutions. For VDSL applications, we offer our QAM-based V-thernet® product family, which supports Ethernet transport over standard telephone wires and is instrumental in developing standards and products for next-generation VDSL2 applications.

Digital Cable, Direct Broadcast Satellite and IP Set-Top Boxes and Digital Television

The last decade has seen rapid growth in the quantity and diversity of television programming. Despite ongoing efforts to upgrade the existing cable infrastructure, an inadequate number of channels exist to provide the content demanded by consumers. In an effort to increase the number of channels and provide higher picture quality, cable service providers began offering digital programming in 1996 through the use of new digital cable set-top boxes. These digital cable set-top boxes facilitate high-speed digital communications between a subscriber's television and the cable network. Digital cable set-top boxes are currently able to support downstream transmission speeds to the subscriber up to 43 Mbps (North American standard) or 56 Mbps (international standard), and several hundred MPEG-2 or MPEG-4 advanced video coding compressed digital television channels.

Direct broadcast satellite, or DBS, is the primary alternative to cable for providing digital television programming. DBS broadcasts video and audio data from satellites directly to digital set-top boxes in the home via dish antennas. Due to the ability of DBS to provide television programming where no cable infrastructure is in place, we believe that the global market for DBS set-top boxes will outpace the market for cable set-top boxes.

The Federal Communications Commission has stated that traditional terrestrial broadcast stations will be required to broadcast in digital format. Currently, the FCC is targeting 2007 for this mandated digital conversion. This conversion will ultimately require all television sets that are 13 inches or larger, DVD players

and video cassette recorders to incorporate an HDTV receiver. We believe this conversion to digital broadcasting will create demand for new digital cable and satellite set-top boxes and digital television receivers. In addition, manufacturers continue to develop and introduce new generations of digital cable and satellite set-top boxes that incorporate enhanced functionalities, such as Internet access, personal video recording, or PVR, video on demand, interactive television, HDTV, 3-D gaming, audio players and various forms of home networking.

TV manufacturers also plan to incorporate digital cable-ready capability into television sets for the North American market by integrating today's cable set-top box functionality directly into TV sets. The manufacturers of TVs, through their trade association, the Consumer Electronics Association, and in cooperation with North American cable operators, have created an industry specification called the "plug-n-play" agreement. This agreement and its associated specification define how to design digital cable-ready TVs for connection into the North American cable infrastructure.

Cable-TV Set-Top Box Solutions. We offer a complete silicon platform for the digital cable-TV set-top box market. These highly integrated chips give manufacturers a broad range of features and capabilities for building standard digital cable-TV set-top boxes for digital video broadcasting, as well as high-end interactive set-top boxes. These high-end set-top boxes merge high-speed cable modem functionality with studio-quality graphics, text and video for both standard definition television, or SDTV, and HDTV formats.

Our cable-TV set-top box silicon consists of front-end transceivers with downstream, upstream and MAC functions, single-chip cable modems, advanced 2D/3D video-graphics encoders and decoders, radio frequency television tuners based on complementary metal oxide semiconductor, or CMOS, process technology, and digital visual interface chipsets. These cable-TV set-top box chips support most industry transmission and television standards, enabling universal interoperability and easy retail channel distribution. Peripheral modules incorporated into front-end devices also provide support for common set-top box peripheral devices, such as infrared remotes and keyboards, LED displays and keypads.

Our chips provide a comprehensive silicon platform for high-end interactive set-top boxes, supporting the simultaneous viewing of television programming with Internet content capability in either HDTV or SDTV format. This capability offers consumers a true interactive environment, allowing them to access Internet content while watching television. By adding our home networking and VoIP technologies, these set-top boxes can also support the functions of a residential broadband gateway for receiving and distributing digital voice and data services throughout the home over Ethernet or wireless networking. In addition, our set-top box semiconductor solutions incorporate PVR functionality. This allows viewers to watch and record multiple programs and enables additional features such as selective viewing, fast forward, fast reverse, skip forward, skip back, and slow motion and frame-by-frame viewing.

DBS Solutions. By leveraging our extensive investment and expertise in the cable-TV set-top box market, we have also developed comprehensive DBS solutions. These products include an advanced, high-definition video graphics subsystem, which drives the audio, video and graphic interfaces in DBS set-top boxes and provides multi-stream control to support PVR capabilities; a CMOS satellite tuner, which allows our customers to provide additional channel offerings; front-end receiver chips for set-top boxes, including an advanced modulation system to increase satellite capacity; and a digital visual interface transmitter. In addition, we offer a complete end-to-end chipset for receiving and displaying HDTV. This chipset provides television and set-top box manufacturers with a high performance vestigial side band receiver and a 2D/3D video-graphics subsystem for SDTV and HDTV displays.

To meet the needs of the growing broadband satellite market, we have also developed a complete satellite system solution that enables DBS providers to cost effectively deploy two-way broadband satellite services, enabling Internet access via satellite. This solution includes an advanced modulation digital satellite receiver, a digital satellite tuner/receiver and a high-performance broadband gateway modem, combining the functionality of a satellite modem, a firewall router and home networking into a single chip.

IP Set-Top Box Solutions. In 2005 Broadcom also introduced a new family of next generation advanced video compression, high definition system-on-a-chip solutions for IP set-top boxes. These solutions include high

definition video decoder/audio processor chips and a dual channel high definition and personal video recorder chip.

Digital TV Solutions. We were an early developer of advanced television systems committee, or ATSC, demodulators used for the reception of terrestrial HDTV signals broadcast in North America. Capitalizing on the FCC HDTV mandate and the “plug-n-play” agreement, as well as on our extensive cable-TV set-top box technology portfolio, we have developed a highly integrated digital TV system-on-a-chip solution. This digital TV solution, when combined with our existing satellite, cable or terrestrial demodulators, forms a complete semiconductor solution for HDTV delivery platforms, including satellite, cable or terrestrial set-top boxes and integrated high definition televisions. Our integrated HDTV solution will allow television manufacturers to develop digital cable-ready televisions that connect directly to the North American cable infrastructure without the need for an external set-top box.

High Definition DVD Players

The DVD player market is currently undergoing a transition as a result of the increased adoption of HDTV sets by consumers and the advent of advanced video compression technologies, such as H.264 (also known as MPEG-4 Part 10/advanced video coding (AVC)) and VC-1 (SMPTE 421M), the SMPTE standard based on Microsoft® Windows Media® Video 9. These trends have led television broadcasters and movie studios to begin offering more high definition video content. In turn, consumer electronics manufacturers have begun offering high definition DVD players and recorders, with substantially greater storage capacity and the ability to effectively handle the significantly higher bit rates associated with high resolution HDTV content. However, similar to the battle between VHS versus Betamax in the 1970’s and 1980’s, two competing optical disc formats have emerged: the Blu-ray™ and HD DVD™ formats. Both Blu-ray and HD DVD disc formats offer significantly greater storage capacity than the current DVD standard, but they differ in the depth of the recording layer inside the disc; like a standard DVD, the recording layer in an HD DVD is midway through the disc, while in a Blu-ray disc it can be found much closer to the surface. This difference makes the two formats incompatible.

Broadcom entered the high definition DVD player market through our acquisition of Sand Video, a developer of advanced video compression technology, in April 2004. Our initial product for this market is a high definition video decoder/audio processor chip that is fully compliant with both the Blu-ray and HD DVD disc formats. This single-chip solution also provides backwards compatibility for current DVD video titles as well as new HD DVD titles that may be authored in an MPEG-2 format. In addition, we offer a reference design for the development of Blu-ray and HD DVD media players that includes our HD audio/video decoder chip, as well as an HD digital video system chip and a software platform that afford our customers a wide range of integration options.

Enterprise Networking

Broadcom designs and develops semiconductor solutions for PC, server and network equipment makers that provide products that handle the flow of information within small-to-medium- sized businesses, large enterprises and service provider networks. Our solutions enable these networks to offer higher capacity, faster, more cost-efficient transport and management of voice, data and video traffic across wired and wireless networks. For desktop computers and servers, we supply high-speed controllers, server I/O chipsets and RAID storage controllers. On the infrastructure side, Broadcom produces end-to-end networking products including Ethernet physical layer and switching devices, optical networking components, embedded processors, security processors and serializers/deserializers.

Local Area Networking

Local area networks, or LANs, consist of various types of equipment, such as servers, workstations and desktop and laptop computers, interconnected by copper, fiber or coaxial cables utilizing a common networking protocol, generally the Ethernet protocol. Ethernet scales in speed from 10 Mbps to 10 gigabits per second, or Gbps, providing both the bandwidth and scalability required in today’s dynamic networking environment. As the volume and complexity of network traffic continues to increase, communications bottlenecks have developed in

corporate LANs. As a result, new technologies such as Gigabit Ethernet, a networking standard that supports data transfer rates of up to one Gbps, and the 10 Gigabit Ethernet standard, which supports data transfer rates of up to 10 Gbps, are replacing older technologies such as Fast Ethernet, which supports data transfer rates of up to 100 Mbps, and 10BASE-T Ethernet, which supports data transfer rates of 10 Mbps.

Gigabit Ethernet is emerging as the predominant networking technology for desktop and laptop computers. As Gigabit Ethernet is deployed to desktop and laptop computers, we expect server and backbone connections to continue to migrate to the new 10 Gigabit Ethernet standard. We further expect the continued use of switch connections in place of legacy repeater connections. Switches not only have the ability to provide dedicated bandwidth to each connection, but also provide routing functionality and possess the capability to deal with differentiated traffic such as voice, video and data. We anticipate that a significant portion of the installed base of 10/100BASE-T Ethernet switches as well as network interface cards, or NICs, will be upgraded to faster technologies.

Our 10/100 Mbps Ethernet and Gigabit Ethernet transceivers, controllers and switches are integrated, low-power semiconductor solutions for servers, workstations, desktop and laptop computers, VoIP phones and wireless access points that enable the high-speed transmission of voice, video and data services over the Category 5 unshielded twisted-pair copper wiring widely deployed in enterprise and small office networks. We also offer 10 Gigabit Ethernet transceivers for network infrastructure products. These high-speed connections are enabling users to share Internet access, exchange graphics and video presentations, receive VoIP and video conferencing services, and share peripheral equipment, such as printers and scanners. In addition, we incorporate intelligent networking functionality into our devices, enabling system vendors to deploy enhanced classes of services and applications, typically found only in the core of the network, to every corporate desktop.

Digital Signal Processing Communication Architecture. Our complex Ethernet transceivers are built upon a proprietary digital signal processing, or DSP, communication architecture optimized for high-speed enterprise network connections. Our DSP silicon core enables interoperability and robust performance over a wide range of cable lengths and operating conditions, and delivers performance of greater than 250 billion operations per second. This proprietary DSP architecture facilitates the migration path to smaller process geometries and minimizes the development schedule and cost of our transceivers. It has been successfully implemented in .35, .25, .18 and .13 micron CMOS processes, and in chips with one, four, six and eight ports.

Fast Ethernet and Gigabit Ethernet Transceivers. Our 10/100 Ethernet transceiver product line ranges from single-chip 10/100 Ethernet transceivers to single-chip octal 10/100 Ethernet transceivers. These devices allow information to travel over standard Category 5 copper cable at rates of 10 Mbps and 100 Mbps. Our Gigabit Ethernet transceivers are enabling manufacturers to make equipment that delivers data at Gigabit speeds over existing Category 5 cabling. We believe this equipment can significantly upgrade the performance of existing networks without the need to rewire the network infrastructure with fiber or enhanced copper cabling. Additionally, we have developed a family of semiconductor solutions incorporating four transceivers in a single chip, which is optimized for high-port-density Gigabit Ethernet switches and routers. Our QuadSquad® transceivers greatly reduce system costs by simplifying typical high-density board designs, further facilitating the deployment of Gigabit Ethernet bandwidth to the desktop.

Our Gigabit transceivers are driving the market toward lower power, smaller footprint solutions, making it easier and less expensive to build 10/100/1000 Ethernet NICs, switches, hubs and routers and to put networking chips directly on computer motherboards in LAN on motherboard, or LOM, configurations. We plan to continue to incorporate additional functionality into all of our transceivers, providing customers with advanced networking features, on-chip and cable diagnostic capabilities and higher performance capabilities.

10 Gigabit Ethernet Transceivers. We have developed a family of 10 Gigabit Ethernet CMOS transceivers. When combined with serial 10 Gigabit optics, these devices can simultaneously transmit and receive at 10 Gbps data rates over 100 kilometers of existing single mode optical fiber. A 10 Gigabit Ethernet link over such distances extends the reach of Ethernet into local, regional and metropolitan fiber optic networks. We believe that significant cost, performance and latency advantages can be realized when the Ethernet protocol and other associated quality of service capabilities are available in these network domains. We anticipate that convergence around 10 Gigabit Ethernet will allow massive data flow from remote storage sites across the country over the

metropolitan area network, or MAN, and into the corporate LAN, without unnecessary delays, costly buffering for speed mismatches or latency, or breaks in the quality of service protocol.

SerDes Technology and Products. We have developed an extensive library of serializer/deserializer, or SerDes, cores for Ethernet, storage and telecommunications network infrastructures. The technology is available in stand-alone SerDes devices or integrated with our standard and custom products. New generations of SerDes architectures provide advanced on-chip diagnostic intelligence to allow system designers to monitor, test and control high-speed serial links for signal integrity and bit error rate performance to reduce development cycles and costly field maintenance support.

Gigabit Ethernet Controllers. Built upon five generations of Gigabit Ethernet MAC technology, our NetXtreme® family of Gigabit Ethernet controllers supports peripheral component interconnect, or PCI®, PCI-X® and PCI Express® local bus interfaces for use in NICs and LOM implementations. The NetXtreme family includes comprehensive solutions for servers, workstations, and desktop and laptop computers. These devices incorporate an integrated Gigabit Ethernet PHY transceiver and are provided with an advanced software suite available for a variety of operating systems. The NetXtreme architecture also features a processor-based design that enables advanced management software to run in firmware so it can be remotely upgraded through simple downloads. Our NetXtreme II™ family of Ethernet controllers, introduced in 2004, consists of converged network interface controllers that are designed to improve server performance by integrating a TCP/IP offload engine, remote direct memory access, iSCSI storage and remote management. NetXtreme II controllers simultaneously perform storage networking, high-performance clustering, accelerated data networking and remote system management pass-through functions. In 2005 Broadcom added new security features to our NetXtreme controllers, including integrated Trusted Platform Module 1.2 functionality, to enable PC manufacturers to offer hardware-based security as a standard feature on enterprise client personal computers. The entire NetXtreme product family is fabricated in a .13 micron or .18 micron CMOS process.

In 2005 Broadcom introduced its NetLink™ family of Gigabit Ethernet controllers, which are based on the PCI Express bus architecture and optimized for small-to-medium-sized businesses. Designed for use in personal computers, NetLink controllers enable applications such as video editing and file transfer, LAN gaming, video conferencing, multimedia data sharing and desktop management, while at the same time offering very low power consumption.

Ethernet Switches. We offer a broad switch-on-a-chip product line ranging from low-cost, unmanaged and managed, OSI Layer 2 eight port switch chips to high-end managed, Layer 3 through Layer 7 enterprise class switch chips.

Our ROBOSwitch-plus™ product family consists of Layer 2+ switch chips supporting five, eight, 16 and 24 port 10/100 Ethernet switches, and our ROBO-HS™ product family supports single-chip networking solutions for Layer 2+ Gigabit Ethernet configurations of four, five, eight, 16 and 24 ports. We believe our switch chips make it economical for the remote office/business office and small office/home office network markets to have the same high-speed local connectivity as the large corporate office market. Our highly integrated family of switch products combines the switching fabric, MACs, 10/100 and Gigabit Ethernet transceivers, media independent interface and packet buffer memory in single-chip solutions. These chips give manufacturers multiple switch design options that combine plug and play ease-of-use, scalability, network management features and non-blocking switching performance at optimal price points for the remote office and branch office user. In 2005 we incorporated two new technologies into our ROBOSwitch™ products, CableChecker™ technology, which finds the location of wiring faults without disrupting live network traffic, and LoopDTech™ technology, which provides an immediate warning when a loop is introduced in the network, allowing the problem to be identified and remedied quickly. The ROBOSwitch family includes products for unmanaged, smart and managed solutions.

Our family of high-end StrataSwitch® products consists of wire-speed, multi-layer chips that combine multiservice provisioning capabilities with switching, routing and traffic classification functionality in single-chip solutions. Replacing as many as 10 chips with one, our StrataSwitch II™ family of chips incorporates 24 Fast Ethernet and two Gigabit Ethernet ports with advanced Layer 3 switching and multi-layer packet classification.

Our StrataXGS® product family provides the multi-layer switching capabilities of our StrataSwitch II technology with wire-speed Gigabit and 10 Gigabit Ethernet switching performance for enterprise business networks. These devices, in combination with our quad and octal Gigabit Ethernet transceivers, enable system vendors to build 12, 24 and 48 port multi-layer Gigabit Ethernet stackable switches, supporting systems with up to 1,536 Gigabit Ethernet ports. These multi-layer switches are capable of receiving, prioritizing and forwarding packets of voice, video and data at high speeds over existing corporate networks. The StrataXGS family also enables advanced network management capabilities in the switching infrastructure to track data flows and monitor or control bandwidth on any one of these flows. This results in a more intelligent use of network resources and enables a whole new set of network service applications that require high bandwidth, reliable data transmission, low latency and advanced quality service features such as streaming video and VoIP. In addition, our StrataXGS III™ product family, introduced in 2005, incorporates advanced features such as IPv6 routing, unified wired and wireless switch management, advanced security and intrusion detection features, sophisticated traffic management, and scalable buffer and routing tables for high end applications.

Servers, Storage and Workstations

With the proliferation of data being accessed and sorted by the Internet and corporate intranets, the demand for servers has increased substantially. As integral pieces of the overall communications infrastructure, servers are multiprocessor-based computers that are used to support users' PCs over networks and to perform data intensive PC functions such as accessing, maintaining and updating databases.

The dramatic increase in the volume of business-critical data that is generated, processed, stored and manipulated has also created challenges for organizations, which must find new ways to efficiently manage the proliferation of stored data. Traditionally, many companies accessed stored network data using a direct attached storage architecture in which a single server controls access to each storage device, and stored data is only available to applications running on the server directly connected to the storage device. However, with the proliferation of stored data, many companies found that this architecture created bottlenecks in their networks. Many companies have moved to the use of new architectures such as networked attached storage, or NAS, and storage area networks, or SANs. In a NAS system, individual storage devices can be connected to a network and be made available to various servers on the network. In a SAN, multiple servers on a network are connected to a centralized pool of storage data devices using a switching element to enable data sharing at gigabit speeds. This shift in architecture has also inspired the creation of new interface protocols such as serial-ATA, or SATA, iSCSI and serial attached SCSI, or SAS, to connect computers, peripherals, storage devices and networks at high speeds.

Unlike mobile and desktop PCs, which are dominated by central processing units, or CPUs, server, storage and workstation platforms require highly-tuned core logic to provide high bandwidth, high performance and the reliability, availability and scalability that customers demand. The Internet has created a new market for servers, storage and workstation platforms as users access data and entertainment stored on servers from their PCs, handheld computers and wireless handsets.

Our SystemI/O semiconductor solutions act as the essential conduits for delivering high-bandwidth data in and out of servers, and coordinating all input/output, or I/O, transactions within server, storage and workstation platforms, including among external I/O devices, the main system memory and multiple CPUs.

We provide core logic technology that manages the flow of data to and from a system's processors, memory and peripheral I/O devices. Our SystemI/O products are used to design low-end and mid-range servers with two to four CPUs, as well as storage, workstation, blades and networking platforms. These products also provide reliability, availability and serviceability features. In 2005 we introduced a HyperTransport™-based server I/O controller that incorporates PCI Express, PCI-X, HyperTransport tunnel and Gigabit Ethernet interfaces. Our current generation of SystemI/O products supports the AMD Opteron® product line and IBM PowerPC processors.

Although our SystemI/O chips historically have been used primarily in servers sold by major PC server OEMs and motherboard manufacturers, over the last two years we have leveraged our server chipset technology and our expertise in networking technology into other expanding markets such as storage and networking. Our storage products include redundant array of inexpensive disks, or RAID, solutions for entry-level and mid-range

server applications, NAS-on-chip solutions targeted to the small business and residential user, and our converged network interface controllers that incorporate iSCSI storage as well as a TCP/IP offload engine, remote direct memory access, and remote management.

Metropolitan and Wide Area Networking

To address the increasing volume of data traffic emanating from the growing number of broadband connections in homes and businesses, MANs and wide area networks, or WANs, will have to evolve at both the transport and switching layers. We believe that the CMOS fabrication process will be a key technology in this evolution by enabling the development of smaller optical modules and system components that cost less, consume less power and integrate greater functionality.

Electronic components for optical communications are a natural extension of our large portfolio of high-speed LAN chips, one that will allow us to provide end-to-end semiconductor solutions across the WAN, MAN and LAN that increase the performance, intelligence and cost-effectiveness of broadband communications networks.

We offer a portfolio of CMOS OC-48 and OC-192 transceiver and forward error correction solutions, chips for Synchronous Optical Networks and dense wave division multiplexing, or DWDM, applications, as well as a serial CMOS transceiver for 10 Gigabit Ethernet applications. Our use of the CMOS process allows substantially higher levels of integration and lower power consumption than competitive gallium arsenide, bipolar or silicon germanium solutions. Our DWDM transport processor combines an OC-192 transceiver, forward error correction, performance monitoring logic and G.709 digital wrapper into a single CMOS chip solution, occupying less than one half the space and consuming one-third the power of non-integrated solutions.

In addition, our latest generation of switch devices is designed for the Metro access and edge markets. These devices feature support for IPv4 and IPv6, MPLS, Ethernet over MPLS, advanced quality of service, and sophisticated packet classification and traffic management. They are also scalable to large systems with external memory.

Other Ethernet Markets

The economies of scale derived from the Ethernet protocol have created emerging markets for Ethernet applications. Broadcom's advanced switch products are being used in second and third generation cellular infrastructures, IP DSLAM, Metro Ethernet, blade servers in data centers, passive optical networks and residential Ethernet applications. In addition, our Ethernet transceivers are now being integrated into printers, gaming consoles, LAN on motherboard applications, audiovisual equipment and a number of other consumer devices.

Security Processors and Adapters

Most corporations use the Internet for the transmission of data among corporate offices and remote sites and for a variety of e-commerce and business-to-business applications. To secure corporate networks from intrusive attacks and provide for secure communications among corporate sites and remote users, an increasing amount of networking equipment will include technology to establish virtual private networks, or VPNs, which use the Internet Protocol security, or IPSec, protocol. In addition to VPNs, secure socket layer, commonly referred to as SSL, is used to secure sensitive information among users and service providers for e-commerce applications.

Our SSL family of CryptoNetX™ high-speed security processors and adapters for enterprise networks is enabling companies to guard against Internet attacks without compromising the speed and performance of their networks. Our PCI 2.2-compliant adapters provide a range of performance from 800 to 10,000 SSL transactions per second. Our current generation of CryptoNetX processors, introduced in 2005, combine IP security, SSL protocol processing, cryptographic acceleration and hardware-based identity management and authentication into a single-chip. These processors are built upon a proprietary, scalable silicon architecture that performs standards-compliant cryptographic functions at data rates ranging from a few Mbps to 10 Gbps full duplex. This architecture is being deployed across all of our product lines, addressing the entire broadband security network spectrum from residential applications to enterprise networking equipment. This scalable architecture allows us to

develop standalone security products for very high-speed networking applications and to integrate the IP security processor core into lower speed solutions for consumer products, such as cable and DSL modem applications.

Broadband Processors

Broadband processors are high performance devices enabling high-speed computations that help identify, optimize and control the flow of data within the broadband network. The continued growth of IP traffic, coupled with the increasing demand for new and improved services and applications such as security, high-speed access and quality of service, is placing additional processing demands on next-generation networking and communications infrastructures. From the enterprise to access network to the service provider edge, networking equipment must be able to deliver wire-speed performance from the OC-3 standard, which transmits data at 155 Mbps, through the OC-192 standard, which transmits data at 10 Gbps, as well as the scalability and flexibility required to support next-generation services and features. In the enterprise and data center markets, server and storage applications require high computational performance to support complex protocol conversions, and services such as virtualization. With the migration from second generation cellular mobile systems, or 2G, to the third generation cellular mobile systems, or 3G, networks and mobile infrastructure equipment must be able to support higher bandwidth rates utilizing low power resource levels.

Leveraging our expertise in high-performance, low-power very large scale integration design, we have developed a family of high performance, low power processor solutions designed specifically to meet the needs of next-generation networks. Our SiByte® family of processors delivers four key features essential for today's embedded broadband network processors: very high performance, low power dissipation, high integration of network-centric functions, and programmability based on an industry-standard instruction set architecture. At the heart of the SiByte family of processors is the SB-1 core, a MIPS® 64-bit superscalar CPU capable of operating at frequencies of 400 MHz up to 1.2 GHz. These processors provide customers with a solution for high-speed network processing, including packet classification, queuing, forwarding and exception processing for wired and wireless networks. They enable complex applications such as deep content switching, routing and load balancing to be performed at wire speed. Our devices are also being designed for utilization in the fast growing network storage market, including network attached storage, storage area networking and RAID applications. Our general purpose processors are ideal for the complex protocol conversions, virtualization and proxy computations that storage applications require.

Custom Silicon Products

Custom silicon products are devices for applications that customers are able to semi-customize by integrating their own intellectual property with our proprietary intellectual property cores. We have successfully deployed such devices into the LAN, WAN and PC markets. Our typical semi-custom devices are complex mixed-signal designs that leverage our advanced design processes.

Mobile & Wireless Networking

Broadcom's mobile and wireless products allow manufacturers to develop leading edge mobile devices, enabling end-to-end wireless opportunities for the home, business and mobile markets. Products in this area include solutions in every major wireless market segment, including wireless local area, cellular and wide area, and personal area networking, as well as a comprehensive range of emerging next generation mobile technologies. Our portfolio of mobile and wireless products are enabling a new generation of portable devices including cellular handsets, mobile TV and game platforms and other wireless-enabled consumer electronics and peripherals, such as home gateways, printers, VoIP phones, PC cards and notebook computers.

Wireless Local Area Networking

Wireless local area networking, also known as wireless LAN or Wi-Fi® networking, allows equipment on a local area network to connect without the use of any cables or wires. Wireless local area networking adds the convenience of mobility to the powerful utility provided by high-speed data networks, and is a natural extension of broadband connectivity in the home and office.

The first widely adopted standard for Wi-Fi technology was the IEEE 802.11b specification, which is the wireless equivalent of 10 Mbps Ethernet, allowing transfer speeds up to 11 Mbps and spanning distances of up to 100 meters. However, the 802.11g specification, which provides almost five times the data rate of 802.11b networks, has replaced 802.11b as the mainstream wireless technology for both business and consumer applications. The 802.11a standard applies to wireless LANs that operate in the 5 GHz frequency range with a maximum data rate of 54 Mbps. Wi-Fi technology was first utilized in applications such as computers and routers, and is now being embedded into a number of other electronic devices such as printers, digital cameras, gaming devices, PDAs, cellular phones and broadband modems.

Our AirForce™ wireless LAN product family consists of standards-based transceiver and wireless network process chips, chipsets and software that allow PCs and other devices, such as PDAs and cellular phones, to connect to wireless home or enterprise networks using 802.11b, 802.11g or 802.11a/g dual-band technology. Our 54g® chipsets represent our implementation of the IEEE 802.11g wireless LAN standard that preserves full interoperability with 802.11b but provides connectivity at speeds of up to 54 Mbps.

Continuous software and hardware performance enhancements have refined our wireless LAN product family, which now includes 125 High Speed Mode™ technology, which increases the speed of wireless transmissions, BroadRange™ technology, which extends Wi-Fi coverage range, and SecureEasySetup™, a software wizard that enables simple setup of a secure wireless network. All of our AirForce products also offer advanced security features, including certified support for Wi-Fi Protected Access™, or WPA, the Cisco Compatible Extensions, and hardware accelerated Advanced Encryption Standard, or AES, encryption. The entire AirForce family is comprised of all-CMOS solutions that are capable of self-calibrating based on usage temperature and other environmental conditions.

Cellular and Wireless Wide Area Networking

The cellular handset market is transitioning from pure voice to broadband multimedia and data, transforming the traditional cellular phone from a voice-only device into a multimedia gateway. Products emerging from this transition will allow end-users to wirelessly download e-mail, view web pages, stream audio and video, and conduct videoconferences with cellular phones, PDAs, laptops and other mobile devices.

The international Global System for Mobile Communication, or GSM, is currently the dominant standard for digital mobile communications. Enhanced data communications standards derived from GSM include General Packet Radio Services, or GPRS, Enhanced Data Rates for GSM Evolution, or EDGE, and Universal Mobile Telecommunications System, or UMTS. UMTS technologies, including Wideband Code Division Multiple Access (WCDMA), are typically referred to as 3G technologies. Each of these standards have extended GSM to enable packet-based “always on” Internet applications and more efficient data transport with higher transmission rates for a new generation of data services such as Internet browsing, 3-D gaming and multimedia messaging with rich graphics and audio content.

We develop and market GSM, GPRS, EDGE and UMTS chipsets and reference designs with complete software and terminal solutions for use in cellular phones, cellular modem cards and wireless PDAs. Our cellular and wireless wide area networking products include baseband processor solutions, which integrate both mixed signal and digital functions on a single chip. We also provide a range of handset and cellular modem engineering design services to select customers, encompassing printed circuit board, RF and handset hardware, software development and integration, product verification and certification, and manufacturing support.

Wireless Personal Area Networking

The Bluetooth® short-range wireless networking standard is a low-cost wire-replacement technology that enables connectivity among a wide variety of mainstream consumer electronic devices including PCs, mobile phones, PDAs, headsets and automotive electronics. Bluetooth short-range wireless connectivity enables personal area networking, or PAN, at speeds up to three Mbps, and can cover distances up to 30 feet. Bluetooth technology allows devices to automatically synchronize and exchange data with other Bluetooth-enabled devices without the need for wires, and enables wireless headset connections to cellular phones and wireless mouse and keyboard applications.

Our Blutonium® family of single-chip Bluetooth devices and software profiles and stacks provides a complete solution that enables manufacturers to add Bluetooth functionality to almost any electronic device with a minimal amount of development time and resources. Our Bluetooth solutions, all of which have been qualified by the Bluetooth Qualification Board to meet version 1.2 or 2.0 of the Bluetooth specification, are incorporated in PCs, PDAs, wireless mouse and keyboard applications, GSM/GPRS/UMTS and CDMA mobile phones, and other end products.

Our Bluetooth solutions offer the industry's highest levels of performance and integration with designs in standard CMOS, allowing them to be highly reliable while reducing manufacturing costs. In addition, we have developed InConcert™ coexistence technology to allow products enabled with our AirForce Wi-Fi and Blutonium Bluetooth chips to collaboratively coexist within the same radio frequency.

Mobile Multimedia Processors

Multimedia is becoming increasingly prevalent in handheld devices such as cellular phones. To support new multimedia features including imaging, graphics, camera image capture, audio capture, music playback, music streaming, video streaming, video capture, gaming, mobile TV, and more, Broadcom offers a new line of video and multimedia processors based on a low power, high performance architecture referred to as Videocore®.

Unlike hard-wired processor cores, Videocore devices are built to provide customers the benefit of total software flexibility and programmability. Videocore supports a wide variety of standard and non-standard software and codecs including, but not limited to, extremely low power implementations of MPEG-4 and H.264 for video, MP3 and AAC for audio, and MIDI. Providing the base codecs to our key customers allows them to rapidly develop next-generation products while maintaining backward compatibility of applications software. Because the fully programmable architecture of our mobile multimedia processors enables a complete range of multimedia functions to be executed in software, the system designer can quickly move to production without the costly overhead and time-to-market uncertainty of hardware accelerators. The scalability of the architecture allows features or new industry standard codecs to be added shortly before product release or through firmware upgrades in the field.

Our Videocore processors can be used either as standalone multimedia processors or as co-processors in conjunction with a host processor such as a GSM, EDGE or UMTS baseband. Videocore-enabled video and multimedia processors for advanced handheld multimedia products are designed and optimized for video record/playback, mobile TV and 3D mobile gaming. Videocore technology is designed to create power efficient, high performance processors focused on multimedia for cellular handsets, but we are also deploying Videocore processors into a number of other portable applications, where battery life and performance are important.

Voice over IP

Voice over Internet Protocol refers to the transmission of voice over any IP packet-based network. VoIP is stimulating dramatic changes in the traditional public switched and enterprise telephone networks. Packet-based networks provide significant economic advantages over traditional circuit-switched voice networks. The trend to IP networks for voice has been driven by the significant build out of the Internet and deregulation of long distance and local phone service.

The enterprise equipment market is being radically affected by the convergence of corporate data networks and voice communications. A host of new enterprise services can be enabled when a LAN-based Ethernet switching infrastructure is used to carry both data and voice. We provide both silicon and software to enable our enterprise equipment customers to provide cost-effective IP phones.

Within residential markets, VoIP is gaining momentum as a viable alternative to traditional public telephone networks. In addition to enabling cost savings for long-distance calls, VoIP creates a number of consumer product opportunities and applications for equipment vendors and service providers.

IP Phone Processors. Our IP phone silicon and software solutions integrate packet processing, voice processing and switching technologies to provide the quality of service, high fidelity and reliability necessary for enterprise telephony applications. Our processors have enabled the development of new XML-based IP phones

that can perform a wide variety of functions that traditional phones cannot support. Originally focused on Fast Ethernet, these processors now include support for Gigabit Ethernet as well to support the growing deployment of Gigabit Ethernet throughout enterprises.

Residential Terminal Adapter Processors. Our terminal adapter VoIP solutions enable existing analog phones to be connected to broadband modems via Ethernet. These products support residential VoIP services that are now being offered by a variety of broadband service providers.

Wi-Fi Phone Processors. In 2004 we introduced our first Wi-Fi phone processor that enables the development of next generation, cordless phone replacement devices. These Wi-Fi phones are beginning to be deployed in both enterprises and homes as the use of broadband and Wi-Fi applications increases in these markets.

All of our VoIP processors support our BroadVoice® technology, which features a wideband high fidelity mode that significantly improves the clarity and quality of telephony voice service.

Reference Platforms

We also develop reference platforms designed around our integrated circuit products that represent example system-level applications for incorporation into our customers' equipment. These reference platforms generally include a fairly extensive suite of software drivers as well as protocol and application layer software to assist our customers in developing their own end products. By providing these reference platforms, we can assist our customers in achieving easier and faster transitions from initial prototype designs to final production releases. These reference platforms enhance the customer's confidence that our products will meet its market requirements and product introduction schedules.

Customers and Strategic Relationships

We sell our products to leading manufacturers of wired and wireless communications equipment in each of our target markets. Because we leverage our technologies across different markets, certain of our integrated circuits may be incorporated into equipment used in several markets.

Customers currently shipping wired and wireless communications equipment incorporating our products include Alcatel, Apple, Askey, Cisco, D-Link, Dell, Echostar, Hewlett-Packard, IBM, Motorola, Nortel Networks, Samsung, Scientific-Atlanta, Sony Ericsson, Thomson CE and 3Com, among others. To meet the current and future technical needs in our target markets, we have also established strategic relationships with multiservice operators that provide wired and wireless communications services to consumers and businesses.

As part of our business strategy, we periodically establish strategic relationships with certain key customers. In September 1997 we entered into a development, supply and license agreement with General Instrument, now a wholly-owned subsidiary of Motorola, which provided that we would develop and supply chips for General Instrument's digital cable set-top boxes. We subsequently modified that agreement to include sales of our cable modem chips, and have entered into further amendments from time to time to amend and/or extend General Instrument's minimum purchase requirements of chips for cable modems and digital set-top boxes.

A small number of customers have historically accounted for a substantial portion of our net revenue. Sales to our five largest customers represented approximately 45.3%, 51.1% and 51.6% of our net revenue in 2005, 2004 and 2003, respectively. See Note 13 of Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this Report.

We expect that our key customers will continue to account for a substantial portion of our net revenue in 2006 and in the foreseeable future. These customers and their respective contributions to our net revenue have varied and will likely continue to vary from period to period. We typically sell products pursuant to purchase orders that customers can generally cancel or defer on short notice without incurring a significant penalty, and currently do not have agreements with any of our key customers that contain long-term commitments to purchase specified volumes of our products.

Core Technologies

Using proprietary technologies and advanced design methodologies, we design, develop and supply complete system-on-a-chip solutions and related hardware and software applications for our target markets. Our proven system-on-a-chip design methodology has enabled us to be first to market with advanced chips that are highly integrated and cost-effective, and that facilitate the easy integration of our customers' intellectual property. Our design methodology leverages industry-standard, state-of-the-art electronic design automation tools, and generally migrates easily to new silicon processes and technology platforms. It also allows for the easy integration of acquired or licensed technology, providing customers with a broad range of silicon options with differentiated networking and performance features.

We believe our key competitive advantages include superior engineering execution and our broad base of core technologies encompassing the complete design space from systems to silicon. We have developed and continue to build on the following technology foundations:

- proprietary communications systems algorithms and protocols;
- advanced DSP hardware architectures;
- system-on-a-chip design methodologies and advanced library development for both standard cell and full-custom integrated circuit design;
- high-performance radio frequency, analog and mixed-signal circuit design using industry-standard CMOS processes;
- high-performance custom microprocessor architectures and circuit designs; and
- extensive software reference platforms and board-level hardware reference platforms to enable complete system-level solutions.

Research and Development

We have assembled a large team of experienced engineers and technologists, many of whom are leaders in their particular field or discipline. As of December 31, 2005 we had 3,011 research and development employees, the majority of whom hold advanced degrees. Our work force includes 356 employees with Ph.Ds. These key employees are involved in advancing our core technologies, as well as applying them to our product development activities. Because the system-on-a-chip solutions for many of our target markets benefit from the same underlying core technologies, we are able to address a wide range of wired and wireless communications markets with a relatively focused investment in research and development.

We believe that the achievement of higher levels of integration and the timely introduction of new products in our target markets is essential to our growth. Our current plans are to maintain our significant research and development staffing levels in 2006 and for the foreseeable future. In addition to our principal design facilities in Irvine, California and Santa Clara County, California, we have design centers in Tempe, Arizona; San Diego County, California; Colorado Springs, Fort Collins, and Longmont, Colorado; Duluth, Georgia; Germantown, Maryland; Andover, Massachusetts; Nashua, New Hampshire; Matawan, New Jersey; Austin, Texas and Seattle, Washington, among other locations. Internationally, we also have design facilities in Belgium, Canada, China, Denmark, France, Greece, India, Israel, Japan, Korea, the Netherlands, Singapore, Taiwan and the United Kingdom, among other locations. We anticipate establishing additional design centers in the United States and in other countries.

Our research and development expense was \$610.1 million, \$495.1 million and \$434.0 million in 2005, 2004 and 2003, respectively. In addition, for employees engaged in research and development, we had non-cash stock-based compensation expense and stock option exchange expense of \$40.6 million, \$58.6 million and \$384.1 million in 2005, 2004 and 2003, respectively. We also had amortization of purchased intangible assets related to research and development of \$0.8 million in 2003. We had no amortization of purchased intangible assets related to research and development in 2005 or 2004.

Manufacturing

Wafer Fabrication

We manufacture our products using standard CMOS process techniques. The standard nature of these processes permits us to engage independent silicon foundries to fabricate our integrated circuits. By subcontracting our manufacturing requirements, we are able to focus our resources on design and test applications where we believe we have greater competitive advantages. This strategy also eliminates the high cost of owning and operating semiconductor wafer fabrication facilities.

Our operations and quality engineering team closely manages the interface between manufacturing and design engineering. While our design methodology typically creates a smaller than average die for a given function, it also generates full-custom integrated circuit designs. As a result, we are responsible for the complete functional and parametric performance testing of our devices, including quality. We employ a fully staffed operations and quality organization similar to that of a vertically integrated semiconductor manufacturer. We also arrange with our foundries to have online work-in-progress control. Our approach makes the manufacturing subcontracting process transparent to our customers.

We depend on five independent foundry subcontractors located in Asia to manufacture substantially all of our products. Our key silicon foundries are Taiwan Semiconductor Manufacturing Corporation in Taiwan, Chartered Semiconductor Manufacturing in Singapore, Semiconductor Manufacturing International Corporation in China, Silterra Malaysia Sdn. Bhd. in Malaysia and United Microelectronics Corporation in Taiwan, several of which maintain multiple fabrication facilities in various locations. Any inability of one of our five independent foundry subcontractors to provide the necessary capacity or output for our products could result in significant production delays and could materially and adversely affect our business, financial condition and results of operations. While we currently believe we have adequate capacity to support our current sales levels, we continue to work with our existing foundries to obtain more production capacity, and we intend to qualify new foundries to provide additional production capacity. It is possible that from time to time adequate foundry capacity may not be available on acceptable terms, if at all. In the event a foundry experiences financial difficulties, or if a foundry suffers any damage to or destruction of its facilities, or in the event of any other disruption of foundry capacity, we may not be able to qualify alternative manufacturing sources for existing or new products in a timely manner.

Our products are currently fabricated with .35 micron, quad layer metal; .22 micron, five layer metal; .18 micron, five and six layer metal; and .13 micron, six and seven layer metal structures. We continuously evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies, and have begun to migrate certain products to 90 and 65 nanometer, seven to eight layer metal, feature sizes. Although our experience to date with the migration of products to smaller processes geometries has been predominantly favorable, we could experience difficulties in future process migration. Other companies in our industry have experienced difficulty transitioning to new manufacturing processes and, consequently, have suffered reduced yields or delays in product deliveries. We believe that the transition of our products to smaller geometries will be important for us to remain competitive. Our business, financial condition and results of operations could be materially and adversely affected if any such transition is substantially delayed or inefficiently implemented.

Assembly and Test

Our wafer probe testing is conducted by either our independent foundries or independent wafer probe test subcontractors. Following completion of the wafer probe tests, the die are assembled into packages and the finished products are tested by one of our seven key subcontractors: ASAT Ltd. in Hong Kong; STATSChipac in Singapore, Korea, Malaysia and China; Siliconware Precision in Taiwan; United Test and Assembly Center in Singapore; Signetics in Korea; Amkor in Korea, Philippines and China; and Global Advance Packaging & Test in China. While we have not experienced material disruptions in supply from assembly subcontractors to date, we and others in our industry have experienced shortages in the supply of packaging materials from time to time, and we could experience shortages or assembly problems in the future. The availability of assembly and testing services from these subcontractors could be materially and adversely affected in the event a subcontractor

experiences financial difficulties, or if a subcontractor suffers any damage to or destruction of its facilities, or in the event of any other disruption of assembly and testing capacity.

Quality Assurance

Manufacturers of wired and wireless communications equipment demand high quality and reliable semiconductors for incorporation into their products. We focus on product reliability from the initial stage of the design cycle through each specific design process, including layout and production test design. In addition, we subject our designs to in-depth circuit simulation at temperature, voltage and processing extremes before initiating the manufacturing process.

We prequalify each assembly and foundry subcontractor. This prequalification process consists of a series of industry standard environmental product stress tests, as well as an audit and analysis of the subcontractor's quality system and manufacturing capability. We also participate in quality and reliability monitoring through each stage of the production cycle by reviewing electrical and parametric data from our wafer foundry and assembly subcontractors. We closely monitor wafer foundry production to ensure consistent overall quality, reliability and yield levels. In cases where we purchase wafers on a fixed price-basis, any improvement in yields can reduce our cost per chip.

As part of our total quality program, we received ISO 9002 certification, a comprehensive International Standards Organization specified quality system, for our Singapore facility. All of our principal independent foundries and package assembly facilities are currently ISO 9001 certified.

While every effort is made to monitor and meet the quality requirements of our customers, including the use of industry standard procedures and other additional methods, it is possible that an unanticipated quality problem may result in interruptions or delays in product shipments. In that event, our reputation may be damaged and customers may be reluctant to buy our products, and we may be required to apply significant capital and other resources to remedy any quality problem with our products.

Environmental Management

We are also focusing on managing the environmental impact of our products. Our manufacturing flow is registered to ISO 14000, the international standards related to environmental management, by our subcontractors. Due to environmental concerns, the need for lead-free solutions in electronic components and systems is receiving increasing attention within the semiconductor industry and many companies are moving towards becoming compliant with the Restriction of Hazardous Substances Directive, the European legislation that restricts the use of a number of substances, including lead, effective July 2006. We believe that our products are compliant with the RoHS Directive and that materials will be available to meet these emerging regulations. However, it is possible that unanticipated supply shortages or delays may occur as a result of these new regulations.

Product Distribution

Initially we distributed products to our customers through an operations and distribution center located in Irvine, California. In 1999 we established an international distribution center in Singapore. This facility put us closer to our suppliers and many key customers and improved our ability to meet customers' needs. Our Irvine facility continues to ship products to U.S. destinations, while our Singapore facility distributes products to international destinations. Net revenue derived from actual shipments to international destinations, primarily in Asia, represented approximately 84.5%, 79.0% and 77.7% of our net revenue in 2005, 2004 and 2003, respectively.

Sales and Marketing

Our sales and marketing strategy is to achieve design wins with technology leaders in each of our targeted wired and wireless communications markets by providing quality, state-of-the-art products, superior engineering execution and superior sales, field application and engineering support. We market and sell our products in the United States through a direct sales force, distributors and manufacturers' representatives. The majority of our

sales occur through our direct sales force, which is based in offices located in California, Colorado, Florida, Georgia, Illinois, Maine, Maryland, Massachusetts, Michigan, New York, New Jersey, North Carolina, Ohio, Texas and Virginia. We have engaged independent distributors, Arrow Electronics and Avnet, Inc., to service the North American and South American markets.

We dedicate sales managers to principal customers to promote close cooperation and communication. We also provide our customers with reference platform designs for most products. We believe this enables our customers to achieve easier and faster transitions from the initial prototype designs through final production releases. We believe these reference platform designs also significantly enhance customers' confidence that our products will meet their market requirements and product introduction schedules.

We market and sell our products internationally through regional offices located in Canada, China, Finland, France, Germany, Japan, Korea, the Netherlands, Singapore, Sweden, Taiwan and the United Kingdom, among other locations, as well as through a network of independent distributors and representatives in Australia, Canada, Germany, Hong Kong, India, Israel, Japan, Korea, Singapore and Taiwan. We select these independent entities based on their ability to provide effective field sales, marketing communications and technical support to our customers. All international sales to date have been denominated in U.S. dollars. For information regarding revenue from independent customers by geographic area, see Note 13 of Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this Report.

Backlog

Our sales are made primarily pursuant to standard purchase orders for delivery of products. Due to industry practice that allows customers to cancel or change orders with limited advance notice prior to shipment, we do not believe that backlog is a reliable indicator of future revenue levels.

Competition

Wired and wireless communications markets and the semiconductor industry are intensely competitive and are characterized by rapid change, evolving standards, short product life cycles and price erosion. We believe that the principal factors of competition for integrated circuit providers in our target markets include:

- product quality;
- product capabilities;
- level of integration;
- engineering execution;
- reliability;
- price;
- time-to-market;
- market presence;
- standards compliance;
- system cost;
- intellectual property;
- customer interface and support; and
- reputation.

We believe that we compete favorably with respect to each of these factors.

We compete with a number of major domestic and international suppliers of integrated circuits and related applications in our target markets. We also compete with suppliers of system-level and motherboard-level

solutions incorporating integrated circuits that are proprietary or sourced from manufacturers other than Broadcom. This competition has resulted and will continue to result in declining average selling prices for our products. In all of our target markets, we also may face competition from newly established competitors, suppliers of products based on new or emerging technologies, and customers that choose to develop their own silicon solutions. We also expect to encounter further consolidation in the markets in which we compete.

Many of our competitors operate their own fabrication facilities and have longer operating histories and presence in key markets, greater name recognition, larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we do. As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products. Current and potential competitors have established or may establish financial or strategic relationships among themselves or with existing or potential customers, resellers or other third parties, and may refuse to provide us with information necessary to permit the interoperability of our products with theirs. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. In addition, competitors may develop technologies that more effectively address our markets with products that offer enhanced features, lower power requirements or lower costs. Increased competition could result in pricing pressures, decreased gross margins and loss of market share and may materially and adversely affect our business, financial condition and results of operations.

Intellectual Property

Our success and future revenue growth depend, in part, on our ability to protect our intellectual property. We rely primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. However, these measures may not provide meaningful protection for our intellectual property.

We hold more than 1,250 U.S. patents and have filed more than 3,600 additional U.S. patent applications. We may not receive any additional patents as a result of these applications or future applications. Even if additional patents are issued, any claims allowed may not be sufficiently broad to protect our technology. In addition, any existing or future patents could be challenged, invalidated or circumvented, and any rights granted under such patents may not provide us with meaningful protection. We may not have foreign patents or pending applications corresponding to our U.S. patents and applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. The failure of any patents to adequately protect our technology would make it easier for our competitors to offer similar products. In connection with our participation in the development of various industry standards, we may be required to license certain of our patents to other parties, including competitors, that develop products based upon the adopted industry standards.

We also generally enter into confidentiality agreements with our employees and strategic partners, and typically control access to and distribution of our documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our products, services or technology without authorization, to develop similar technology independently, or to design around our patents. In addition, effective copyright, trademark and trade secret protection may not be available or may be limited in certain foreign countries. We have also entered into agreements with certain of our customers and granted these customers the right to use our proprietary technology in the event we default in our contractual obligations, including product supply obligations, and fail to cure the default within a specified time period. In addition, we often incorporate the intellectual property of our strategic customers into our designs, and therefore have certain obligations with respect to the non-use and non-disclosure of their intellectual property. It is possible that the steps taken by us to prevent misappropriation or infringement of our intellectual property or our customers' intellectual property may not be successful. Moreover, we are currently engaged in litigation and may need to engage in additional litigation to enforce our intellectual property rights or the rights of our customers, to protect our trade secrets, or to determine the validity and scope of proprietary rights of others, including our customers. Such litigation will result in substantial costs and diversion of our resources and could materially and adversely affect our business, financial condition and results of operations.

Companies in the semiconductor industry often aggressively protect and pursue their intellectual property rights. From time to time, we have received, and may continue to receive, notices that claim we have infringed upon, misappropriated or misused other parties' proprietary rights. Moreover, we have in the past and continue to be engaged in litigation with parties who claim that we have infringed their patents or misappropriated or misused their trade secrets. We may also be sued by parties who may seek to invalidate one or more of our patents. Any intellectual property claims may materially and adversely affect our business, financial condition and results of operations. For example, in a patent or trade secret action, a court could issue a preliminary or permanent injunction that would require us to withdraw or recall certain products from the market or to redesign certain products offered for sale or under development. In addition, we may be liable for damages for past infringement and royalties for future use of the technology. We may also have to indemnify certain customers and strategic partners under our agreements with such parties if a third party alleges or if a court finds that our products or activities have infringed upon, misappropriated or misused another party's proprietary rights. Even if claims against us are not valid or successfully asserted, the defense of these claims could result in significant costs and a diversion of management and personnel resources. In any of these events, our business, financial condition and results of operations may be materially and adversely affected. Additionally, we have sought and may in the future seek to obtain a license under a third party's intellectual property rights and have granted and may grant a license to certain of our intellectual property rights to a third party in connection with a cross-license agreement or a settlement of claims or actions asserted against us. However, we may not be able to obtain a license on commercially reasonable terms, if at all.

Employees

As of December 31, 2005 we had 4,287 full-time, contract and temporary employees, including 3,011 individuals engaged in research and development, 514 engaged in sales and marketing, 313 engaged in manufacturing operations, and 449 engaged in finance, legal and general administration activities. Our employees are not represented by any collective bargaining agreement, and we have never experienced a work stoppage. We believe our employee relations are good.

Item 1A. Risk Factors

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

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

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

- changes in accounting rules, such as the change requiring the recording of expenses for employee stock options and other stock-based compensation expense commencing in the first quarter of 2006;
- the overall cyclicity of, and changing economic and market conditions in, the semiconductor industry and wired and wireless communications markets, including seasonality in sales of consumer products into which our products are incorporated;

- our ability to scale our operations in response to changes in demand for our existing products and services or demand for new products requested by our customers;
- intellectual property disputes, customer indemnification claims and other types of litigation risks;
- the gain or loss of a key customer, design win or order;
- our dependence on a few significant customers for a substantial portion of our revenue;
- the timing, rescheduling or cancellation of significant customer orders and our ability, as well as the ability of our customers, to manage inventory;
- our ability to retain, recruit and hire key executives, technical personnel and other employees in the positions and numbers, with the experience and capabilities, and at the compensation levels that we need to implement our business and product plans;
- our ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a cost-effective and timely manner;
- the rate at which our present and future customers and end users adopt our technologies and products in our target markets;
- the availability and pricing of third party semiconductor foundry, assembly and test capacity and raw materials;
- our ability to timely and accurately predict market requirements and evolving industry standards and to identify and capitalize upon opportunities in new markets;
- competitive pressures and other factors such as the qualification, availability and pricing of competing products and technologies and the resulting effects on sales and pricing of our products;
- changes in our product or customer mix;
- the volume of our product sales and pricing concessions on volume sales; and
- the effects of public health emergencies, natural disasters, terrorist activities, international conflicts and other events beyond our control.

We expect new product lines to continue to account for a high percentage of our future sales. Some of these markets are immature and/or unpredictable or are new markets for Broadcom, and we cannot assure you that these markets will develop into significant opportunities or that we will continue to derive significant revenue from these markets. Based on the limited amount of historical data available to us, it is difficult to anticipate our future revenue streams from, and the sustainability of, such newer markets.

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

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

Changes in the accounting treatment of stock-based awards will adversely affect our reported results of operations.

In December 2004 the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, or SFAS 123. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant date fair values and does not allow the previously permitted disclosure-only method as an alternative to financial statement recognition. Effective January 1, 2006 we adopted SFAS 123R.

The adoption of the SFAS 123R fair value method will have a significant adverse impact on our reported results of operations because the stock-based compensation expense will be charged directly against our reported earnings. The balance of unearned stock-based compensation to be expensed in the period 2006 through 2009 related to share-based awards unvested at December 31, 2005, as previously calculated under the disclosure-only requirements of SFAS 123, is approximately \$710.0 million. The weighted-average period over which the

unearned stock-based compensation is expected to be recognized is approximately two years. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. To the extent that we grant additional equity securities to employees or assume unvested securities in connection with any acquisitions, our stock-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions. We anticipate we will grant additional employee stock options and restricted stock units in the second quarter of 2006 as part of our regular annual equity compensation focal review program. The fair value of these grants is not included in the amount above, as the impact of these grants cannot be predicted at this time because it will depend on the number of share-based payments granted as part of the focal review program and the then current fair values.

Had we adopted SFAS 123R in prior periods, the magnitude of the impact of that standard on our results of operations would have approximated the impact of SFAS 123 assuming the application of the Black-Scholes option pricing model as described in the disclosure of pro forma net income (loss) and pro forma net income (loss) per share in Note 1 of Notes to Consolidated Financial Statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement may reduce net operating cash flows and increase net financing cash flows in periods after its adoption.

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

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

Additionally, in the last three years, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in the wired and wireless communications markets, the ongoing effects of the war in Iraq, recent international conflicts and terrorist and military activity, and the impact of natural disasters and public health emergencies. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to slow spending on our products and services, which would delay and lengthen sales cycles. We experienced a slowdown in orders and a reduction in net revenue in the fourth quarter of 2004 that we believe was attributable in substantial part to excess inventory held by certain of our customers, and we may experience a similar slowdown in the future. We cannot predict the timing, strength or duration of any economic recovery, worldwide, or in the wired and wireless communications markets. If the economy or the wired and wireless communications markets in which we operate do not continue at their present levels, our business, financial condition and results of operations will likely be materially and adversely affected.

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

To achieve our business objectives, we anticipate that we will need to continue to expand. We have experienced a period of rapid growth and expansion in the past. Through internal growth and acquisitions, we

significantly increased the scope of our operations and expanded our workforce from 2,580 employees, including contractors, as of December 31, 2002 to 4,287 employees, including contractors, as of December 31, 2005. Nonetheless, we may not be able to expand our workforce and operations in a sufficiently timely manner to respond effectively to changes in demand for our existing products and services or to the demand for new products requested by our customers. In that event, we may be unable to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected. Conversely, if we expand our operations and workforce too rapidly in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expected, the rate of increase in our operating expenses may exceed the rate of increase in our revenue, which would adversely affect our operating results.

Our past growth has placed, and any future growth is expected to continue to place, a significant strain on our management personnel, systems and resources. To implement our current business and product plans, we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort. Although we have implemented a new enterprise resource planning, or ERP, system to help us improve our planning and management processes and a new human resources management, or HRM, system, we anticipate that we will also need to continue to implement a variety of new and upgraded operational and financial systems, as well as additional procedures and other internal management systems. In addition, to support our growth we recently signed a lease agreement under which we will relocate our headquarters and Irvine operations to new, larger facilities that will enable us to centralize all of our Irvine employees and operations on one campus. This relocation is currently anticipated to begin in the first quarter of 2007. We may also engage in other relocations of our employees or operations from time to time. Such relocations could result in temporary disruptions of our operations or a diversion of our management's attention and resources. If we are unable to effectively manage our expanding operations, we may be unable to scale our business quickly enough to meet competitive challenges or exploit potential market opportunities, or conversely, we may scale our business too quickly and the rate of increase in our expenses may exceed the rate of increase in our revenue, either of which would materially and adversely affect our current or future business.

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

Companies in and related to the semiconductor industry often aggressively protect and pursue their intellectual property rights. There are often intellectual property risks associated with developing and producing new products and entering new markets, and we may not be able to obtain, at reasonable cost and upon commercially reasonable terms, licenses to intellectual property of others that is alleged to read on such new or existing products. From time to time, we have received, and may continue to receive, notices that claim we have infringed upon, misappropriated or misused other parties' proprietary rights. Moreover, in the past we have been and we currently are engaged in litigation with parties that claim that we infringed their patents or misappropriated or misused their trade secrets. In addition, we or our customers may be sued by other parties that claim that our products have infringed their patents or misappropriated or misused their trade secrets, or which may seek to invalidate one or more of our patents. An adverse determination in any of these types of disputes could prevent us from manufacturing or selling some of our products, limit or restrict the type of work that employees involved in such litigation may perform for Broadcom, increase our costs of revenue and expose us to significant liability. Any of these claims may materially and adversely affect our business, financial condition and results of operations. For example, in a patent or trade secret action, a court could issue a preliminary or permanent injunction that would require us to withdraw or recall certain products from the market, redesign certain products offered for sale or under development, or restrict employees from performing work in their areas of expertise. We may also be liable for damages for past infringement and royalties for future use of the technology, and we may be liable for treble damages if infringement is found to have been willful. In addition, governmental agencies may commence investigations or criminal proceedings against our employees, former employees and/or the Company relating to claims of misappropriation or misuse of another party's proprietary

rights. We may also have to indemnify some customers and strategic partners under our agreements with such parties if a third party alleges or if a court finds that our products or activities have infringed upon, misappropriated or misused another party's proprietary rights. We have received requests from certain customers and strategic partners to include increasingly broad indemnification provisions in our agreements with them. These indemnification provisions may, in some circumstances, extend our liability beyond the products we provide to include liability for combinations of components or system level designs and consequential damages and/or lost profits. Even if claims against us are not valid or successfully asserted, these claims could result in significant costs and a diversion of the attention of management and other key employees to defend. Additionally, we have sought and may in the future seek to obtain a license under a third party's intellectual property rights and have granted and may in the future grant a license to certain of our intellectual property rights to a third party in connection with a cross-license agreement or a settlement of claims or actions asserted against us. However, we may not be able to obtain such a license on commercially reasonable terms.

Our products may contain technology provided to us by other parties including customers. We may have little or no ability to determine in advance whether such technology infringes the intellectual property rights of a third party. Our suppliers and licensors may not be required to indemnify us in the event that a claim of infringement is asserted against us, or they may be required to indemnify us only up to a maximum amount, above which we would be responsible for any further costs or damages.

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

Our success and future revenue growth will depend, in part, on our ability to protect our intellectual property. We primarily rely on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. Despite our efforts to protect our proprietary technologies and processes, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies and processes. We hold more than 1,250 U.S. patents and have filed more than 3,600 additional U.S. patent applications. However, we cannot assure you that any additional patents will be issued. Even if a new patent is issued, the claims allowed may not be sufficiently broad to protect our technology. In addition, any of our existing or future patents may be challenged, invalidated or circumvented. As such, any rights granted under these patents may not provide us with meaningful protection. We may not have foreign patents or pending applications corresponding to our U.S. patents and applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents. Some or all of our patents have in the past been licensed and likely will in the future be licensed to certain of our competitors through cross-license agreements. Moreover, because we have participated in developing various industry standards, we may be required to license some of our patents to others, including competitors, who develop products based on those standards.

Certain of our software (as well as that of our customers) may be derived from so-called "open source" software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available to us under licenses, such as the GNU General Public License, or GPL, which impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the forms of license customarily used to protect our intellectual property. In addition, there is little or no legal precedent for interpreting the terms of certain of these open source licenses, including the determination of which works are subject to the terms of such licenses. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work. With respect to our proprietary software, we generally license such software under terms that prohibit combining it with open source software as described above. Despite these restrictions, parties may combine Broadcom proprietary software with open source

software without our authorization, in which case we might nonetheless be required to release the source code of our proprietary software.

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

In addition, some of our customers have entered into agreements with us that grant them the right to use our proprietary technology if we ever fail to fulfill our obligations, including product supply obligations, under those agreements, and if we do not correct the failure within a specified time period. Moreover, we often incorporate the intellectual property of strategic customers into our own designs, and have certain obligations not to use or disclose their intellectual property without their authorization.

We cannot assure you that our efforts to prevent the misappropriation or infringement of our intellectual property or the intellectual property of our customers will succeed. We have in the past been and currently are engaged in litigation to enforce or defend our intellectual property rights, protect our trade secrets, or determine the validity and scope of the proprietary rights of others, including our customers. Such litigation (and the settlement thereof) has been and will likely continue to be very expensive and time consuming. Additionally, any litigation can divert the attention of management and other key employees from the operation of the business, which could negatively impact our business and results of operations.

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

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

Sales to our five largest customers, including sales to their manufacturing subcontractors, represented approximately 45.3%, 51.1% and 51.6% of our net revenue in 2005, 2004 and 2003, respectively. We expect that our largest customers will continue to account for a substantial portion of our net revenue in 2006 and for the foreseeable future. The identities of our largest customers and their respective contributions to our net revenue have varied and will likely continue to vary from period to period.

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

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

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

Our future success depends in significant part on strategic relationships with certain customers. If we cannot maintain these relationships or if these customers develop their own solutions or adopt a competitor’s solutions instead of buying our products, our operating results would be adversely affected.

In the past, we have relied in significant part on our strategic relationships with customers that are technology leaders in our target markets. We intend to pursue the formation of these strategic relationships but we cannot assure you that we will be able to do so. These relationships often require us to develop new products that may involve significant technological challenges. Our customers frequently place considerable pressure on us to meet their tight development schedules. Accordingly, we may have to devote a substantial amount of our resources to our strategic relationships, which could detract from or delay our completion of other important development projects. Delays in development could impair our relationships with our strategic customers and negatively impact sales of the products under development. Moreover, it is possible that our customers may develop their own solutions or adopt a competitor’s solution for products that they currently buy from us. If that happens, our sales would decline and our business, financial condition and results of operations could be materially and adversely affected.

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

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Customers can generally cancel or defer purchase orders on short notice without incurring a significant penalty. In the recent past, some of our customers have developed excess inventories of their own products and have, as a consequence, deferred purchase orders for our products. We currently do not have the ability to accurately predict what or how many products our customers will need in the future. Anticipating demand is difficult because our customers face volatile pricing and unpredictable demand for their own products, are increasingly focused more on cash preservation and tighter inventory management, and may be involved in legal proceedings that could affect their ability to buy our products. In addition, as an increasing number of our chips are being incorporated into consumer products, we anticipate greater fluctuations in demand for our products, which makes it more difficult to forecast customer demand. We place orders with our suppliers based on forecasts of customer demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. Our forecasts are based on multiple assumptions, each of which may introduce error into our estimates. If we overestimate customer demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect to, if at all. As a result, we would hold excess or obsolete inventory, which would reduce our profit margins and adversely affect our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would forego revenue opportunities and potentially lose market share and damage our customer relationships. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect our profit margins, increase product obsolescence and restrict our ability to fund our operations. Furthermore, we generally recognize revenue upon shipment of products to a customer. If a customer refuses to accept shipped products or does not timely pay for these products, we could incur significant charges against our income. We have also recently entered into consigned or customer managed inventory arrangements with certain of our customers, although we have not shipped a significant amount of product under those arrangements as of December 31, 2005. Pursuant to these arrangements we deliver products to a warehouse of the customer or a designated third party based upon the customer’s projected needs, but do not recognize product revenue unless and until the customer reports that

it has removed our product from the warehouse to incorporate into its end products. If a customer does not take product under such an arrangement in accordance with the schedule it originally provided us, our predicted future revenue stream could vary substantially from our forecasts and our results of operations could be materially and adversely affected.

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

Our future success depends to a significant extent upon the continued service of our key senior management personnel, including our co-founder, Chairman of the Board and Chief Technical Officer, Henry Samuelli, Ph.D., our Chief Executive Officer, Scott A. McGregor, and other senior executives. We do not have employment agreements with these executives, or any other key employees, that govern the length of their service, although we do have limited retention arrangements in place with certain executives. The loss of the services of Dr. Samuelli, Mr. McGregor or certain other key senior management or technical personnel could materially and adversely affect our business, financial condition and results of operations. For instance, if any of these individuals were to leave our company unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity during the search for and while any such successor is integrated into our business and operations.

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

Equity awards generally comprise a significant portion of our compensation packages for all employees. In April and May 2003 we conducted a stock option exchange offer to address the substantial decline in the price of our Class A common stock over the preceding two years and to improve our ability to retain key employees. However, we cannot be certain that we will be able to continue to attract, retain and motivate employees if our Class A common stock experiences another substantial price decline.

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

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

Our future success is dependent upon our ability to develop new semiconductor solutions for existing and new markets, introduce these products in a cost-effective and timely manner, and convince leading equipment manufacturers to select these products for design into their own new products. Our historical quarterly results have been, and we expect that our future results will continue to be, dependent on the introduction of a relatively small number of new products and the timely completion and delivery of those products to customers. The development of new silicon devices is highly complex, and from time to time we have experienced delays in completing the development and introduction of new products and lower than anticipated manufacturing yields in the early production of such products. If we were to experience any similar delays in the successful completion of a new product or similar reductions in our manufacturing yields for a new product in the future, our customer relationships, reputation and business could be seriously harmed.

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

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

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

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

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

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

We will have difficulty selling our products if customers do not design our products into their product offerings or if our customers' product offerings are not commercially successful.

Our products are generally incorporated into our customers' products at the design stage. As a result, we rely on equipment manufacturers to select our products to be designed into their products. Without these "design wins," it becomes difficult to sell our products. We often incur significant expenditures on the development of a new product without any assurance that an equipment manufacturer will select our product for design into its own product. Additionally, in some instances, we are dependent on third parties to obtain or provide information that we need to achieve a design win. Some of these third parties may be our competitors and, accordingly, may not supply this information to us on a timely basis, if at all. Once an equipment manufacturer designs a competitor's product into its product offering, it becomes significantly more difficult for us to sell our products to that customer because changing suppliers involves significant cost, time, effort and risk for the customer. Furthermore, even if an equipment manufacturer designs one of our products into its product offering, we cannot be assured that its product will be commercially successful or that we will receive any revenue from that product. Sales of our products largely depend on the commercial success of our customers' products. Our customers are typically not obligated to purchase our products and can choose at any time to stop using our products if their own products are not commercially successful or for any other reason. We cannot assure you that we will continue to achieve design wins or that our customers' equipment incorporating our products will ever be commercially successful.

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

Highly complex products such as the products that we offer frequently contain defects and bugs when they are first introduced or as new versions are released. Our products have previously experienced, and may in the future experience, these defects and bugs. If any of our products contains defects or bugs, or has reliability, quality or compatibility problems, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers and attract new customers. In addition, these defects or bugs could interrupt or delay sales or shipment of our products to our customers. To alleviate these problems, we may have to invest significant capital and other resources. Although our products are tested by us and our suppliers and customers, it is possible that our new products will contain defects or bugs. If any of these problems are not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or field replacement costs. These problems may divert our technical and other resources from other development efforts and could result in claims against us by our customers or others, including possible claims for consequential damages and/or lost profits. In addition, system and handset providers that purchase components may require that we assume liability for defects associated with products produced by their manufacturing subcontractors and require that we provide a warranty for defects or other problems which may arise at the system level. Moreover, we would likely lose, or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers.

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

A key element of our business strategy involves expansion through the acquisitions of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. Between January 1, 1999 and December 31, 2005, we acquired 32 companies and certain assets of one other business. We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the purchase or sale of assets, including tangible and intangible assets such as intellectual

property. We also continually evaluate the performance and prospects of our various businesses and possible adjustments in our businesses to reflect changes in our assessment of their performance and prospects.

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

Acquisitions may require large one-time charges and can result in increased debt or contingent liabilities, adverse tax consequences, deferred compensation charges, and the recording and later amortization of amounts related to deferred compensation and certain purchased intangible assets, any of which items could negatively impact our results of operations. In addition, we may record goodwill in connection with an acquisition and incur goodwill impairment charges in the future. Any of these charges could cause the price of our Class A common stock to decline.

Acquisitions or asset purchases made entirely or partially for cash may reduce our cash reserves. Alternatively, we may issue equity or convertible debt securities in connection with an acquisition. We have in effect an acquisition shelf registration statement on SEC Form S-4 that enables us to issue up to 30 million shares of our Class A common stock in one or more acquisition transactions that we may enter into from time to time. Any issuance of equity or convertible debt securities may be dilutive to our existing shareholders. In addition, the equity or debt securities that we may issue could have rights, preferences or privileges senior to those of our common stock. For example, as a consequence of the prior pooling-of-interests accounting rules, the securities issued in nine of our prior acquisitions were shares of Class B common stock, which have voting rights superior to our publicly traded Class A common stock.

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

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

We currently obtain substantially all of our manufacturing, assembly and testing services from suppliers located outside the United States. In addition, approximately 25.8% of our 2005 net revenue was derived from sales to independent customers outside the United States, excluding foreign subsidiaries or manufacturing subcontractors of customers that are headquartered in the United States. We also frequently ship products to our domestic customers' international manufacturing divisions and subcontractors. Products shipped to international destinations, primarily in Asia, represented approximately 84.5% of our 2005 net revenue. In 1999 we established an international distribution center in Singapore that includes an engineering design center. We also undertake design and development activities in Belgium, Canada, China, Denmark, France, Greece, India, Israel, Japan, Korea, the Netherlands, Taiwan and the United Kingdom, among other locations. In addition, we undertake various sales and marketing activities through regional offices in several other countries. We intend to continue to expand our international business activities and to open other design and operational centers abroad. The

continuing effects of the war in Iraq and terrorist attacks in the United States and abroad, the resulting heightened security and the increasing risk of extended international military conflicts may adversely impact our international sales and could make our international operations more expensive. International operations are subject to many other inherent risks, including but not limited to:

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

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

We currently operate under tax holidays and favorable tax incentives in certain foreign jurisdictions. For instance, in Singapore we operate under tax holidays that reduce our taxes in that country on certain non-investment income. Such tax holidays and incentives often require us to meet specified employment and investment criteria in such jurisdictions. However, we cannot assure you that we will continue to meet such criteria or enjoy such tax holidays and incentives, or realize any net tax benefits from such tax holidays or incentives. If any of our tax holidays or incentives are terminated, our results of operations may be materially and adversely affected.

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

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

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

Many of our competitors operate their own fabrication facilities and have longer operating histories and presence in key markets, greater name recognition, larger customer bases, and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than we do. These competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the promotion and sale of their products. In addition, current and potential competitors have established or may establish financial or strategic relationships among themselves or with existing or potential customers, resellers or other third parties. Accordingly, new competitors or alliances among competitors could emerge and rapidly acquire significant market share. Existing or new competitors may also develop technologies that more effectively address our markets with products that offer enhanced features and functionality, lower power requirements, greater levels of integration or lower cost. Increased competition has resulted in and is likely to continue to result in price reductions, reduced gross margins and loss of market share in certain markets. In some of our businesses, our ability to develop and deliver next-generation products successfully and in a timely fashion depends in part on access to information, or licenses of technology or intellectual property rights, from companies that are our competitors. We cannot assure you that such information or licenses will be made available to us on a timely basis, if at all, or at reasonable cost and on commercially reasonable terms. We cannot assure you that we will be able to continue to compete successfully against current or new competitors. If we do not compete successfully, we may lose market share in our existing markets and our revenues may fail to increase or may decline.

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

To remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify the manufacturing processes for our products and to redesign some products as well as standard cells and other integrated circuit designs that we may use in multiple products. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs. Currently most of our products are manufactured in .25 micron, .22 micron, .18 micron and .13 micron geometry processes. In addition, we have begun to migrate some of our products to 90-nanometer and 65-nanometer process technologies. In the past, we have experienced some difficulties in shifting to smaller geometry process technologies or new manufacturing processes, which resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes. We are dependent on our relationships with our foundry subcontractors to transition to smaller geometry processes successfully. We cannot assure you that the foundries that we use will be able to effectively manage the transition or that we will be able to maintain our existing foundry relationships or develop new ones. If any of our foundry subcontractors or we experience significant delays in this transition or fail to efficiently implement this transition, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations. As smaller geometry processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis, if at all. Moreover, even if we are able to achieve higher levels of design integration, such integration may have a short-term adverse impact on our operating results, as we may reduce our revenue by integrating the functionality of multiple chips into a single chip.

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

We do not own or operate a fabrication facility. Five third-party foundry subcontractors located in Asia manufacture substantially all of our semiconductor devices in current production. Availability of foundry capacity has at times in the past been reduced due to strong demand. In addition, a recurrence of severe acute respiratory syndrome, or SARS, or the occurrence of a significant outbreak of avian influenza among humans or another

public health emergency in Asia could further affect the production capabilities of our manufacturers by resulting in quarantines or closures. If we are unable to secure sufficient capacity at our existing foundries, or in the event of a quarantine or closure at any of these foundries, our revenues, cost of revenues and results of operations would be negatively impacted.

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

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

- a lack of guaranteed wafer supply and potential wafer shortages and higher wafer prices;
- limited control over delivery schedules, quality assurance, manufacturing yields and production costs; and
- the unavailability of, or potential delays in obtaining access to, key process technologies.

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

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

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

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

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

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

We do not have long-term agreements with any of our assembly or test subcontractors and typically procure services from these suppliers on a per order basis. If any of these subcontractors experiences capacity constraints or financial difficulties, suffers any damage to its facilities, experiences power outages or any other disruption of assembly or testing capacity, we may not be able to obtain alternative assembly and testing services in a timely manner. Due to the amount of time that it usually takes us to qualify assemblers and testers, we could experience significant delays in product shipments if we are required to find alternative assemblers or testers for our components. Any problems that we may encounter with the delivery, quality or cost of our products could damage our customer relationships and materially and adversely affect our results of operations. We are continuing to develop relationships with additional third-party subcontractors to assemble and test our products. However, even if we use these new subcontractors, we will continue to be subject to all of the risks described above.

Our products typically have lengthy sales cycles. A customer may decide to cancel or change its product plans, which could cause us to lose anticipated sales. In addition, our average product life cycles tend to be short and, as a result, we may hold excess or obsolete inventory that could adversely affect our operating results.

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

While our sales cycles are typically long, our average product life cycles tend to be short as a result of the rapidly changing technology environment in which we operate. As a result, the resources devoted to product sales and marketing may not generate material revenue for us, and from time to time, we may need to write off excess and obsolete inventory. If we incur significant marketing expenses and investments in inventory in the future that we are not able to recover, and we are not able to compensate for those expenses, our operating results could be

adversely affected. In addition, if we sell our products at reduced prices in anticipation of cost reductions but still hold higher cost products in inventory, our operating results would be harmed.

Our stock price is highly volatile. Accordingly, you may not be able to resell your shares of common stock at or above the price you paid for them.

The market price of our Class A common stock has fluctuated substantially in the past and is likely to continue to be highly volatile and subject to wide fluctuations. Since January 1, 2002 our Class A common stock has traded at prices as low as \$9.52 and as high as \$71.87 per share. Fluctuations have occurred and may continue to occur in response to various factors, many of which we cannot control, including:

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

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

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

Two of the five third-party foundries upon which we rely to manufacture substantially all of our semiconductor devices are located in Taiwan. Taiwan has experienced significant earthquakes in the past and could be subject to additional earthquakes. Any earthquake or other natural disaster, such as a tsunami, in a country in which any of our foundries is located could significantly disrupt our foundries' production capabilities and could result in our experiencing a significant delay in delivery, or substantial shortage, of wafers and possibly in higher wafer prices. Our California facilities, including our principal executive offices and major design centers, are located near major earthquake fault lines. Our international distribution center is located in Singapore, which could also be subject to an earthquake, tsunami or other natural disaster. If there is a major earthquake or any other natural disaster in a region where one or more of our facilities are located, our operations could be significantly disrupted. Although we have established business interruption plans to prepare for any such event, we cannot guarantee that we will be able to effectively address all interruptions that such an event could cause.

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

The Federal Communications Commission has broad jurisdiction over each of our target markets. Although current FCC regulations and the laws and regulations of other federal or state agencies are not directly applicable to our products, they do apply to much of the equipment into which our products are incorporated. FCC regulatory policies that affect the ability of cable operators or telephone companies to offer certain services to their customers or other aspects of their business may impede sales of our products. Accordingly, the effects of regulation on our customers or the industries in which they operate may, in turn, materially and adversely impact our business. For example, in the past we have experienced delays when products incorporating our chips failed to comply with FCC emissions specifications. We and our customers may also be subject to regulation by countries other than the United States. Foreign governments may impose tariffs, duties and other import restrictions on components that we obtain from non-domestic suppliers and may impose export restrictions on products that we sell internationally. These tariffs, duties or restrictions could materially and adversely affect our business, financial condition and results of operations. Changes in current laws or regulations or the imposition of new laws and regulations in the United States or elsewhere could also materially and adversely affect our business.

If our internal controls over financial reporting do not comply with the requirements of the Sarbanes-Oxley Act, our business and stock price could be adversely affected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate the effectiveness of our internal controls over financial reporting as of the end of each year, and to include a management report assessing the effectiveness of our internal controls over financial reporting in all annual reports. Section 404 also requires our independent registered public accounting firm to attest to, and report on, management's assessment of our internal controls over financial reporting.

Our management, including our CEO and CFO, does not expect that our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, involving Broadcom have been, or will be, detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Although our management has determined, and our independent registered public accounting firm has attested, that our internal controls over financial reporting were effective as of December 31, 2005, we cannot assure you that we or our independent registered public accounting firm will not identify a material weakness in our internal controls in the future. A material weakness in our internal controls over financial reporting would require management and our independent registered public accounting firm to evaluate our internal controls as ineffective. If our internal controls over financial reporting are not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock price.

We may seek to raise additional capital through the issuance of additional equity or debt securities or by borrowing money, but additional funds may not be available on terms acceptable to us, if at all.

We believe that our existing cash, cash equivalents and marketable securities, together with cash generated by operations and from the exercise of employee stock options will be sufficient to cover our working capital needs, capital expenditures, investment requirements, commitments and repurchases of our Class A common stock for at least the next 12 months. However, it is possible that we may need to raise additional funds to finance our activities beyond the next 12 months or to consummate acquisitions of other businesses, assets, products or technologies. We could raise such funds by selling equity or debt securities to the public or to selected investors, or by borrowing money from financial institutions. In addition, even though we may not need additional funds, we may still elect to sell additional equity or debt securities or obtain credit facilities for other reasons. We have in effect a universal shelf registration statement on SEC Form S-3 that allows us to sell, in one or more public offerings, shares of our Class A common stock, shares of preferred stock or debt securities, or any combination of such securities, for proceeds in an aggregate amount of up to \$750 million. However, we have not issued nor do we have immediate plans to issue securities to raise capital under the universal shelf registration statement. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis on acceptable terms, if at all. If we raise additional funds by issuing equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of our common stock.

Our co-founders, directors, executive officers and their affiliates can control the outcome of matters that require the approval of our shareholders, and accordingly we will not be able to engage in certain transactions without their approval.

As of December 31, 2005 our co-founders, directors, executive officers and their respective affiliates beneficially owned approximately 15.6% of our outstanding common stock and held 62.2% of the total voting power held by our shareholders. Accordingly, these shareholders currently have enough voting power to control the outcome of matters that require the approval of our shareholders. These matters include the election of our Board of Directors, the issuance of additional shares of Class B common stock, and the approval of most significant corporate transactions, including certain mergers and consolidations and the sale of substantially all of our assets. In particular, as of December 31, 2005 our two founders, Dr. Henry T. Nicholas III, who is no longer an officer or director of Broadcom, and Dr. Henry Samuelli, our Chairman of the Board and Chief Technical Officer, beneficially owned a total of approximately 14.5% of our outstanding common stock and held 61.2% of the total voting power held by our shareholders. Because of their significant voting stock ownership, we will not be able to engage in certain transactions, and our shareholders will not be able to effect certain actions or transactions, without the approval of one or both of these shareholders. These actions and transactions include changes in the composition of our Board of Directors, certain mergers, and the sale of control of our company by means of a tender offer, open market purchases or other purchases of our Class A common stock, or otherwise.

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

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

stock or additional shares of Class B common stock may prevent or discourage third parties from acquiring us, even if the acquisition would be beneficial to our shareholders. In addition, these factors may discourage third parties from bidding for our Class A common stock at a premium over the market price for our stock. These factors may also materially and adversely affect voting and other rights of the holders of our common stock and the market price of our Class A common stock.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

We lease facilities in Irvine (our corporate headquarters) and Santa Clara County, California. Each of these facilities includes administration, sales and marketing, research and development and operations functions. In addition to our principal design facilities in Irvine and Santa Clara County, we lease additional design facilities in Tempe, Arizona; San Diego County, California; Colorado Springs, Fort Collins, and Longmont, Colorado; Duluth, Georgia; Germantown, Maryland; Andover, Massachusetts; Nashua, New Hampshire; Matawan, New Jersey; Austin, Texas and Seattle, Washington, among other locations.

Internationally, we lease a distribution center that includes engineering design and administrative facilities in Singapore as well as engineering design and administrative facilities in Belgium, Canada, China, Denmark, France, Greece, India, Israel, Japan, Korea, the Netherlands, Taiwan and the United Kingdom, among other locations.

In addition, we lease various sales and marketing facilities in the United States and several other countries.

The leased facilities comprise an aggregate of approximately 2.0 million square feet. Our principal facilities have lease terms expiring between 2006 and 2017. We believe that the facilities under lease by us will be adequate for at least the next 12 months. In December 2004 we entered into a lease agreement under which our corporate headquarters will move from our present location to a new, larger facility in Irvine, which will consist of eight buildings with an aggregate of approximately 0.7 million square feet. The lease term is a period of ten years and two months beginning after the completion of the first two buildings and related tenant improvements, which is anticipated to occur in the first quarter of 2007.

For additional information regarding our obligations under property leases, see Note 6 of Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this Report.

Item 3. *Legal Proceedings*

The information set forth under Note 12 of Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this Report, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see the section entitled “Risk Factors” in Item 1A of this Report.

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2005.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information and Holders

Our Class A common stock is traded on the NASDAQ National Market under the symbol BRCM. The following table sets forth, for the periods indicated, the high and low sale prices for our Class A common stock on the NASDAQ National Market:

	<u>High</u>	<u>Low</u>
Year Ending December 31, 2006		
First Quarter (through February 10, 2006)	\$71.87	\$46.44
Year Ended December 31, 2005		
Fourth Quarter	\$49.92	\$39.57
Third Quarter	47.12	35.66
Second Quarter	38.50	27.37
First Quarter	34.07	29.10
Year Ended December 31, 2004		
Fourth Quarter	\$34.49	\$25.61
Third Quarter	46.75	25.25
Second Quarter	47.05	36.51
First Quarter	45.00	34.08

As of December 31, 2005 there were 1,725 record holders of our Class A common stock and 263 record holders of our Class B common stock. On February 10, 2006 the last reported sale price of our Class A common stock on the NASDAQ National Market was \$69.01 per share.

Our Class B common stock is not publicly traded. Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock and in most instances automatically converts upon sale or other transfer.

Dividend Policy

We have never declared or paid cash dividends on shares of our capital stock. We currently intend to retain all of our earnings, if any, for use in our business and in acquisitions of other businesses, assets, products or technologies, and for purchases of our common stock from time to time. We do not anticipate paying any cash dividends in the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans

The information under the caption "Equity Compensation Plan Information," appearing in the Proxy Statement, is hereby incorporated by reference. For additional information on our stock incentive plans and activity, see Note 8 of Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this Report.

Recent Sales of Unregistered Securities

In the three months ended December 31, 2005, we issued an aggregate of 1.5 million shares of our Class A common stock upon conversion of a like number of shares of our Class B common stock. The offers and sales of those securities were effected without registration in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act.

Issuer Purchases of Equity Securities

In February 2005 our Board of Directors authorized a program to repurchase shares of our Class A common stock. The Board approved the repurchase of shares having an aggregate value of up to \$250 million from time to time over a period of one year, depending on market conditions and other factors.

The following table details the repurchases that were made under the program during the three months ended December 31, 2005:

<u>Period</u>	<u>Total Number of Shares Purchased</u> (In thousands)	<u>Average Price per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan</u> (In thousands)	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan</u> (In thousands)
October 3, 2005 — October 31, 2005	622	\$43.72	622	
November 1, 2005 — November 30, 2005	415	\$45.03	415	
December 1, 2005 — December 30, 2005	<u>249</u>	<u>\$48.11</u>	<u>249</u>	
Total	<u>1,286</u>	<u>\$45.00</u>	<u>1,286</u>	<u>\$96,248⁽¹⁾</u>

(1) Such amount represents the approximate dollar value available under the program for repurchases of additional shares of our Class A common stock at December 31, 2005, prior to the amendment of the program described below.

Under the program, through January 25, 2006 we repurchased a total of approximately 3.7 million shares of our Class A common stock at a weighted average price of \$42.12 per share, for \$156.0 million including transaction costs.

On January 25, 2006 the Board of Directors approved an amendment to the share repurchase program extending the program through January 26, 2007 and authorizing the repurchase of additional shares of the our Class A common stock having a total market value of up to \$500 million from time to time during the period beginning January 26, 2006 and ending January 26, 2007. Repurchases under the program will be made in open market or privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements and other factors. The program does not obligate Broadcom to acquire any particular amount of Class A common stock and may be suspended at any time at our discretion.

Item 6. Selected Consolidated Financial Data

	Years Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share data)				
Consolidated Statement of Operations Data					
Net revenue	\$2,670,788	\$2,400,610	\$ 1,610,095	\$ 1,082,948	\$ 961,821
Cost of revenue ⁽¹⁾	1,263,477	1,191,927	821,794	591,480	540,395
Cost of revenue — stock-based compensation	1,746	1,367	17,982	12,917	17,338
Gross profit	1,405,565	1,207,316	770,319	478,551	404,088
Operating expense:					
Research and development ⁽¹⁾	610,059	495,075	434,018	461,804	446,648
Research and development — stock-based compensation	40,569	58,611	219,337	252,365	319,357
Selling, general and administrative ⁽¹⁾	244,926	212,727	190,138	165,267	155,448
Selling, general and administrative — stock-based compensation	17,689	14,709	44,623	107,425	157,173
Amortization of purchased intangible assets	4,033	3,703	3,504	22,387	27,192
Settlement costs	110,000	68,700	194,509	3,000	3,000
In-process research and development	43,452	63,766	—	—	109,710
Impairment of goodwill and other intangible assets	500	18,000	439,611	1,265,038	1,181,649
Restructuring costs (reversal)	(2,500)	—	2,932	119,680	34,281
Stock option exchange	—	—	209,266	—	7,509
Amortization of goodwill	—	—	—	—	753,042
Income (loss) from operations	336,837	272,025	(967,619)	(1,918,415)	(2,790,921)
Interest income, net	51,207	15,010	6,828	12,183	23,019
Other income (expense), net	3,465	7,317	26,053	(32,750)	(30,875)
Income (loss) before income taxes	391,509	294,352	(934,738)	(1,938,982)	(2,798,777)
Provision (benefit) for income taxes	(20,220)	75,607	25,127	297,594	(56,729)
Net income (loss)	<u>\$ 411,729</u>	<u>\$ 218,745</u>	<u>\$ (959,865)</u>	<u>\$ (2,236,576)</u>	<u>\$ (2,742,048)</u>
Net income (loss) per share (basic) ⁽²⁾	<u>\$ 1.21</u>	<u>\$.68</u>	<u>\$ (3.29)</u>	<u>\$ (8.35)</u>	<u>\$ (10.79)</u>
Net income (loss) per share (diluted) ⁽²⁾	<u>\$ 1.10</u>	<u>\$.63</u>	<u>\$ (3.29)</u>	<u>\$ (8.35)</u>	<u>\$ (10.79)</u>

	December 31,				
	2005	2004	2003	2002	2001
	(In thousands)				
Consolidated Balance Sheet Data					
Cash and cash equivalents	\$1,437,276	\$ 858,592	\$ 558,669	\$ 389,555	\$ 403,758
Working capital	1,741,254	1,087,342	492,227	187,767	265,107
Goodwill and purchased intangible assets, net . .	1,156,934	1,079,262	834,319	1,252,639	2,338,740
Total assets	3,752,199	2,885,839	2,017,622	2,216,153	3,631,409
Long-term debt, including current portion	—	—	—	113,470	118,046
Total shareholders' equity	3,145,439	2,365,986	1,489,805	1,644,521	3,207,410

(1) Excludes stock-based compensation expense, which is presented separately by respective expense category. Stock-based compensation expense includes the impact of restricted stock units and certain other equity compensation instruments we issued, as well as stock options and restricted stock assumed in acquisitions and the effects of our stock option exchange programs in 2003 and 2001. See Consolidated Statements of Operations, included in Part IV, Item 15 of this Report.

(2) See Notes 1 and 2 of Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this Report, for an explanation of the calculation of net income (loss) per share.

The table above sets forth our selected consolidated financial data. We prepared this information using the consolidated financial statements of Broadcom for the five years ended December 31, 2005. Certain amounts in the selected consolidated financial data above have been reclassified to conform with the 2005 presentation. The consolidated financial statements include the results of operations of acquisitions commencing on their respective acquisition dates. See Note 3 of Notes to Consolidated Financial Statements, included in Part IV, Item 15 of this Report.

You should read this selected consolidated financial data together with the Consolidated Financial Statements and related Notes contained in this Report and in our prior and subsequent reports filed with the SEC, as well as the section of this Report and our other reports entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with our Consolidated Financial Statements and related Notes thereto included in Part IV, Item 15 of this Report and the "Risk Factors" included in Part I, Item 1A of this Report, as well as other cautionary statements and risks described elsewhere in this Report, before deciding to purchase, hold or sell our common stock.

Overview

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

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

Our net revenue is generated principally by sales of our semiconductor products. Such sales represented approximately 99.1%, 99.0% and 98.5% of our total net revenue in 2005, 2004 and 2003, respectively. We derive the remaining balance of our net revenue predominantly from software licenses, development agreements, support and maintenance agreements and cancellation fees.

The majority of our sales occur through the efforts of our direct sales force. Sales made through distributors represented approximately 15.6%, 9.6% and 7.1% of our total net revenue in 2005, 2004 and 2003, respectively. The increase in 2005 was the result of more of our solutions being sold through distributors in Asia.

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

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

For these and other reasons, our net revenue and results of operations in 2005 and prior periods may not necessarily be indicative of future net revenue and results of operations.

From time to time, our key customers place large orders causing our quarterly net revenue to fluctuate significantly. We expect that these fluctuations will continue and that they may be exaggerated by the increasing volume of Broadcom solutions that are incorporated into consumer products, sales of which are typically subject to greater seasonality and greater volume fluctuations than non-consumer OEM products.

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

	Years Ended December 31,		
	2005	2004	2003
Motorola	15.5%	12.4%	*
Hewlett-Packard	*	12.9	15.5%
Dell	*	*	11.9
Five largest customers as a group	45.3	51.1	51.6

* Less than 10% of net revenue.

We expect that our largest customers will continue to account for a substantial portion of our net revenue in 2006 and for the foreseeable future. The identities of our largest customers and their respective contributions to our net revenue have varied and will likely continue to vary from period to period.

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

	Years Ended December 31,		
	2005	2004	2003
Asia (primarily in Taiwan, Korea and China)	17.8%	15.0%	19.6%
Europe (primarily in France and the United Kingdom)	7.6	6.4	5.9
Other	<u>0.4</u>	<u>0.2</u>	<u>0.3</u>
	<u>25.8%</u>	<u>21.6%</u>	<u>25.8%</u>

Net revenue derived from shipments to international destinations, primarily to Asia, represented approximately 84.5%, 79.0% and 77.7% of our net revenue in 2005, 2004 and 2003, respectively.

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

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

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

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

- stock-based compensation expense;
- amortization of purchased intangible assets;
- in-process research and development, or IPR&D;

- settlement costs;
- impairment of goodwill and other intangible assets;
- income tax benefits from adjustments to tax reserves of foreign subsidiaries;
- gain (loss) on strategic investments;
- stock-option exchange expense; and
- restructuring costs or reversals thereof.

In 2005 our net income was approximately \$411.7 million as compared to \$218.7 million in 2004, a difference of \$193.0 million. This improvement in profitability in 2005 was the direct result of a 11.3% improvement in net revenue and a 2.3 percentage point improvement in gross margin. This resulted in an increase of \$198.2 million in gross profit. In addition, we had reductions in 2005 in stock-based compensation expense, IPR&D, impairment of intangible assets and provision for income taxes, aggregating approximately \$148.3 million, offset by an increase in settlement costs of approximately \$41.3 million.

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

Acquisition Strategy. An element of our business strategy involves the acquisition of businesses, assets, products or technologies that allow us to reduce the time required to develop new technologies and products and bring them to market, incorporate enhanced functionality into and complement our existing product offerings, augment our engineering workforce, and/or enhance our technological capabilities. We plan to continue to evaluate strategic opportunities as they arise, including acquisitions and other business combination transactions, strategic relationships, capital infusions and the purchase or sale of assets.

In 2005, 2004 and 2003 we completed eleven acquisitions for original aggregate equity consideration of \$292.2 million and cash consideration of \$209.3 million. In 2005 we acquired Alliant Networks, Inc., a developer of WLAN embedded software; Zeevo, Inc., a developer of Bluetooth headset chipsets; Siligent Technologies Inc., a developer of 10 Gigabit Ethernet server controllers; and Athena Semiconductors, Inc., a developer of mobile digital television tuner and low-power Wi-Fi technology. In 2004 we acquired RAIDCore, Inc., a developer of redundant array of inexpensive disks, or RAID, and virtualization software; Sand Video, Inc., a developer of advanced video compression semiconductor technology; M-Stream, Inc., a developer of technology for signal-to-noise ratio performance improvements in cellular handsets; WIDCOMM, Inc., a provider of software solutions for Bluetooth wireless products; Zyray Wireless Inc., a developer of baseband co-processors addressing UMTS mobile devices; and Alphamosaic Limited, a developer of advanced mobile imaging, multimedia and 3D graphics technology optimized for use in cellular phones and other mobile devices. In 2003 we acquired certain assets of Gadzoox Networks, Inc., a provider of storage networking technology. Because each of these acquisitions was accounted for as a purchase transaction, the accompanying consolidated financial statements include the results of operations of the acquired companies commencing on their respective acquisition dates. See Note 3 of Notes to Consolidated Financial Statements.

Business Enterprise Segments. We operate in one reportable operating segment, wired and wireless broadband communications. SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or SFAS 131, establishes standards for the way public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. Although we had four operating segments at December 31, 2005, under the aggregation criteria set forth in SFAS 131 we operate in only one reportable operating segment, wired and wireless broadband communications.

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

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

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

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

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

Because we meet each of the criteria set forth in SFAS 131 and our four operating segments as of December 31, 2005 share similar economic characteristics, we aggregate our results of operations into one reportable operating segment.

Critical Accounting Policies and Estimates

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

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements:

- *Net Revenue* We recognize product revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) our price to the customer is fixed or determinable and (iv) collection of the resulting accounts receivable is reasonably assured. These criteria are usually met at the time of product shipment. However,

we do not recognize revenue until all customer acceptance requirements have been met, when applicable. A portion of our sales are made through distributors under agreements allowing for pricing credits and/or rights of return. Product revenue on sales made through these distributors is not recognized until the distributors ship the product to their customers. Customer purchase orders and/or contracts are generally used to determine the existence of an arrangement. Shipping documents and the completion of any customer acceptance requirements, when applicable, are used to verify product delivery or that services have been rendered. We assess whether a price is fixed or determinable based upon the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess the collectibility of our accounts receivable based primarily upon the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

- *Sales Returns and Allowance for Doubtful Accounts.* We record reductions to revenue for estimated product returns and pricing adjustments, such as competitive pricing programs and rebates, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns, analysis of credit memo data, specific criteria included in rebate agreements, and other factors known at the time. Additional reductions to revenue would result if actual product returns or pricing adjustments exceed our estimates. We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of any of our customers were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances could be required.
- *Inventory and Warranty Reserves.* We establish inventory reserves for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions. If actual demand and market conditions are less favorable than those projected by management, additional inventory reserves could be required. Our products typically carry a one to three year warranty. We establish reserves for estimated product warranty costs at the time revenue is recognized. Although we engage in extensive product quality programs and processes, our warranty obligation has been and may in the future be affected by product failure rates, product recalls, repair or field replacement costs and additional development costs incurred in correcting any product failure, as well as possible claims for consequential costs. Should actual product failure rates, use of materials or service delivery costs differ from our estimates, additional warranty reserves could be required. In that event, our gross profit and gross margins would be reduced.
- *Stock-Based Compensation Expense for 2006 and Thereafter.* Effective January 1, 2006 we adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R. SFAS 123R requires all share-based payments, including grants of stock options, restricted stock units and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. Under this standard, the fair value of each employee stock option and employee stock purchase right is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based payments. The Black-Scholes model meets the requirements of SFAS 123R but the fair values generated by the model may not be indicative of the actual fair values of our stock-based awards as it does not consider certain factors important to stock-based awards, such as continued employment and periodic vesting requirements and limited transferability. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. We use the implied volatility for traded options on our stock as the expected volatility assumption required in the Black-Scholes model. Our selection of the implied volatility approach is based on the availability of data regarding actively traded options on our stock as we believe that implied volatility is more representative than historical volatility. The expected life of the stock options is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our stock options and stock purchase rights. The dividend yield assumption is based on our history and expectation of dividend payouts. The fair value of our restricted stock units is based on the

fair market value of our Class A common stock on the date of grant. Stock-based compensation expense recognized in our financial statements in 2006 and thereafter is based on awards that are ultimately expected to vest. The amount of stock-based compensation expense in 2006 and thereafter will be reduced for estimated forfeitures based on historical experience. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We will evaluate the assumptions used to value stock awards on a quarterly basis. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. To the extent that we grant additional equity securities to employees or we assume unvested securities in connection with any acquisitions, our stock-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions. Had we adopted SFAS 123R in prior periods, the magnitude of the impact of that standard on our results of operations would have approximated the impact of SFAS 123 assuming the application of the Black-Scholes option pricing model as described in the disclosure of pro forma net income (loss) and pro forma net income (loss) per share in Note 1 of our Notes to Consolidated Financial Statements.

- *Goodwill and Purchased Intangible Assets.* Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. The amounts and useful lives assigned to intangible assets acquired, other than goodwill, impact the amount and timing of future amortization, and the amount assigned to in-process research and development is expensed immediately. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) any future declines in our operating results, (ii) a decline in the valuation of technology company stocks, including the valuation of our common stock, (iii) another significant slowdown in the worldwide economy or the semiconductor industry or (iv) any failure to meet the performance projections included in our forecasts of future operating results. We evaluate these assets, including purchased intangible assets deemed to have indefinite lives, on an annual basis in the fourth quarter or more frequently if we believe indicators of impairment exist. In the process of our annual impairment review, we primarily use the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value of our intangible assets. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.
- *Deferred Taxes and Tax Contingencies.* We utilize the liability method of accounting for income taxes. We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of our cumulative losses in the U.S. and certain foreign jurisdictions and the full utilization of our loss carryback opportunities, we have concluded that a full valuation allowance against our net deferred tax assets is appropriate in such jurisdictions. In certain other foreign jurisdictions where we do not have cumulative losses, we record valuation allowances to reduce our net deferred tax assets to the amount we believe is more likely than not to be realized. In the future, if we realize a deferred tax asset that currently carries a valuation allowance, we may record a reduction to income tax expense in the period of such realization. We record estimated income tax liabilities to the extent they are probable and can be reasonably estimated. As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in

which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially to reverse previously recorded tax liabilities.

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

Results of Operations

The following table sets forth certain Consolidated Statements of Operations data expressed as a percentage of net revenue for the periods indicated:

	Years Ended December 31,		
	2005	2004	2003
Net revenue	100.0%	100.0%	100.0%
Cost of revenue ⁽¹⁾	47.3	49.6	51.1
Cost of revenue — stock-based compensation	<u>0.1</u>	<u>0.1</u>	<u>1.1</u>
Gross profit	52.6	50.3	47.8
Operating expense:			
Research and development ⁽¹⁾	22.8	20.6	27.0
Research and development — stock-based compensation	1.5	2.4	13.6
Selling, general and administrative ⁽¹⁾	9.2	8.9	11.8
Selling, general and administrative — stock-based compensation	0.7	0.6	2.7
Amortization of purchased intangible assets	0.2	0.2	0.2
Settlement costs	4.1	2.9	12.1
In-process research and development	1.6	2.7	—
Impairment of goodwill and other intangible assets	0.0	0.7	27.3
Restructuring costs (reversal)	(0.1)	—	0.2
Stock option exchange	<u>—</u>	<u>—</u>	<u>13.0</u>
Income (loss) from operations	12.6	11.3	(60.1)
Interest income, net	1.9	0.7	0.4
Other income, net	<u>0.2</u>	<u>0.3</u>	<u>1.6</u>
Income (loss) before income taxes	14.7	12.3	(58.1)
Provision for income taxes	<u>(0.7)</u>	<u>3.2</u>	<u>1.5</u>
Net income (loss)	<u>15.4%</u>	<u>9.1%</u>	<u>(59.6)%</u>

(1) Excludes stock-based compensation expense, which is presented separately by respective expense category. Stock-based compensation expense includes the impact of restricted stock units and certain other equity compensation instruments we issued, as well as stock options and restricted stock assumed in acquisitions and the effects of the stock option exchange program in 2003. See Consolidated Statements of Operations, included in Part IV, Item 15 of this Report.

Years Ended December 31, 2005 and 2004

Net Revenue, Cost of Revenue and Gross Profit

The following table presents net revenue, cost of revenue and gross profit for 2005 and 2004:

	Years Ended December 31,					
	2005		2004			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase	% Change
	(In thousands, except percentages)					
Net revenue	\$2,670,788	100.0%	\$2,400,610	100.0%	\$270,178	11.3%
Cost of revenue ⁽¹⁾	1,263,477	47.3	1,191,927	49.6	71,550	6.0
Cost of revenue — stock-based compensation	<u>1,746</u>	<u>0.1</u>	<u>1,367</u>	<u>0.1</u>	<u>379</u>	27.7
Gross profit	<u>\$1,405,565</u>	<u>52.6%</u>	<u>\$1,207,316</u>	<u>50.3%</u>	<u>\$198,249</u>	16.4

(1) Excludes stock-based compensation expense, which is presented separately by respective expense category. Stock-based compensation expense includes the impact of restricted stock units and certain other equity compensation instruments we issued, as well as stock options and restricted stock assumed in acquisitions.

Net Revenue. Our revenue is generated principally by sales of our semiconductor products. Net revenue is revenue less reductions for rebates and provisions for returns and allowances. The following table presents net revenue from each of our major target markets and their respective contributions to the increase in net revenue in 2005 as compared to 2004:

	Years Ended December 31,				Increase (Decrease)	% Change
	2005		2004			
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Enterprise networking	\$1,063,142	39.8%	\$1,121,090	46.7%	\$ (57,948)	(5.2)%
Broadband communications	919,798	34.4	780,383	32.5	139,415	17.9
Mobile and wireless	<u>687,848</u>	<u>25.8</u>	<u>499,137</u>	<u>20.8</u>	<u>188,711</u>	37.8
Net revenue	<u>\$2,670,788</u>	<u>100.0%</u>	<u>\$2,400,610</u>	<u>100.0%</u>	<u>\$270,178</u>	11.3

The 2005 decrease in net revenue from our enterprise networking target market resulted primarily from the previously anticipated decline in shipments of our Intel processor-based server chipsets, which resulted in a \$206.8 million decrease in net revenue for those products, offset by an increase in net revenue for our enterprise Ethernet and controller products. The 2005 increase in net revenue from our broadband communications target market resulted primarily from an increase in net revenue from solutions for broadband modems. The 2005 increase in net revenue from our mobile and wireless target market resulted primarily from strength in our Bluetooth and mobile multimedia product offerings, partially offset by weakness in our cellular handset and wireless LAN businesses in the first half of 2005.

Our enterprise networking products include Ethernet transceivers, controllers, switches, broadband network and security processors, server chipsets and storage products. Our broadband communications products include solutions for cable modems, DSL applications, digital cable, direct broadcast satellite and IP set-top boxes, digital TVs and HD DVD and personal video recording devices. Our mobile and wireless products include wireless LAN, cellular, Bluetooth, mobile multimedia and VoIP solutions.

The following table presents net revenue from each of our major target markets and their respective contributions to the increase in net revenue in the fourth quarter of 2005 as compared to the third quarter of 2005:

	<u>Three Months Ended December 31, 2005</u>		<u>Three Months Ended September 30, 2005</u>			
	<u>Amount</u>	<u>% of Net Revenue</u>	<u>Amount</u>	<u>% of Net Revenue</u>	<u>Increase</u>	<u>% Change</u>
	<u>(In thousands, except percentages)</u>					
Enterprise networking	\$303,892	37.1%	\$272,144	39.2%	\$ 31,748	11.7%
Broadband communications	249,683	30.4	237,172	34.1	12,511	5.3
Mobile and wireless	<u>267,030</u>	<u>32.5</u>	<u>185,661</u>	<u>26.7</u>	<u>81,369</u>	<u>43.8</u>
Net revenue	<u>\$820,605</u>	<u>100.0%</u>	<u>\$694,977</u>	<u>100.0%</u>	<u>\$125,628</u>	<u>18.1</u>

The increase in net revenue from the third quarter to the fourth quarter of 2005 resulted primarily from an increase in the volume of shipments of our semiconductor products stemming from the rise in demand for our products in each of our major target markets. The increase in net revenue in our enterprise networking target market resulted primarily from an increase in net revenue from our enterprise Ethernet products. The increase in net revenue from our mobile and wireless target market resulted primarily from strength in our Bluetooth and mobile multimedia product offerings.

We currently anticipate that total net revenue in the first quarter of 2006 will be approximately \$865.0 million to \$875.0 million, as compared to \$820.6 million in net revenue achieved in the fourth quarter of 2005. In the first quarter of 2006, we expect to see this increase distributed across all three of our major target markets, with the strongest growth expected to come from our broadband communications target market.

We recorded rebates to certain customers in the amounts of \$220.8 million and \$263.6 million in 2005 and 2004, respectively. We account for rebates in accordance with FASB Emerging Issues Task Force, or EITF, Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, and, accordingly, record reductions to revenue for rebates in the same period that the related revenue is recorded. The amount of these reductions is based upon the terms included in our various rebate agreements. Historically, reversals of rebate accruals have not been material. We anticipate that accrued rebates will vary in future periods based on the level of overall sales to customers that participate in our rebate programs and as specific rebate programs contractually end and unclaimed rebates are no longer subject to payment. However, we do not expect rebates to impact our gross margin as our prices to these customers and corresponding revenue and margins are already net of such rebates.

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

The 2005 increase in gross profit resulted primarily from the 11.3% increase in net revenue. Gross margin increased from 50.3% in 2004 to 52.6% in 2005. The primary factors that contributed to this 2.3 percentage point improvement were improvements in product margin due to (i) changes in product mix, (ii) benefits from the favorable foundry pricing we were able to negotiate at the beginning of 2005 and (iii) other product cost savings, particularly in the area of yield improvements. In addition, gross margin increased due to a decrease in provisions for excess and obsolete inventory and warranty costs as compared to 2004.

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

	Years Ended December 31,	
	2005	2004
	(In thousands)	
Cost of revenue	\$11,081	\$12,821
Operating expense	<u>4,033</u>	<u>3,703</u>
	<u>\$15,114</u>	<u>\$16,524</u>

The following table presents details of the unamortized balance of purchased intangible assets that will be amortized to future cost of revenue and operating expense:

	Net Purchased Intangibles Assets at December 31, 2005	Amortizable in	
		2006	2007
	(In thousands)		
Cost of revenue	\$5,423	\$4,940	\$483
Operating expense	<u>1,909</u>	<u>1,735</u>	<u>174</u>
	<u>\$7,332</u>	<u>\$6,675</u>	<u>\$657</u>

Gross margin has been and will likely continue to be impacted in the future by competitive pricing programs, fluctuations in silicon wafer costs and assembly, packaging and testing costs, product warranty costs, provisions for excess or obsolete inventories, possible future changes in product mix, and the introduction of products with lower margins, among other factors. We anticipate that our gross margin in the first quarter of 2006 may be flat or decrease slightly compared to the fourth quarter of 2005. Our gross margin may also be impacted by additional stock-based compensation expense, as discussed below, and the amortization of purchased intangible assets related to future acquisitions.

Effective January 1, 2006 we adopted SFAS 123R, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, or SFAS 123. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant date fair values. The balance of unearned stock-based compensation to be included in cost of revenue in the period 2006 through 2009 related to share-based awards unvested at December 31, 2005, as previously calculated under the disclosure-only requirements of SFAS 123, is approximately \$36.5 million. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately two years. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. To the extent that we grant additional equity securities to employees or assume unvested securities in connection with any acquisitions, our cost of revenue will be increased by the additional unearned compensation resulting from those additional grants or acquisitions. We anticipate we will grant additional employee stock options and restricted stock units in the second quarter of 2006 as part of our regular annual equity compensation focal review program. The value of these grants is not included in the amount above, and the impact of these grants cannot be predicted at this time because it will depend on the number of share-based payments granted as part of the focal review program and the then current fair values. For an additional discussion of the effects of expensing of stock options, see "Recent Accounting Pronouncements," below.

Research and Development and Selling, General and Administrative Expenses

The following table presents research and development and selling, general and administrative expenses for 2005 and 2004:

	Years Ended December 31,					
	2005		2004			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase (Decrease)	% Change
	(In thousands, except percentages)					
Research and development ⁽¹⁾ . . .	\$610,059	22.8%	\$495,075	20.6%	\$114,984	23.2%
Research and development — stock-based compensation . . .	40,569	1.5	58,611	2.4	(18,042)	(30.8)
Selling, general and administrative ⁽¹⁾	244,926	9.2	212,727	8.9	32,199	15.1
Selling, general and administrative — stock-based compensation	17,689	0.7	14,709	0.6	2,980	20.3

(1) Excludes stock-based compensation expense, which is presented separately by respective expense category. Stock-based compensation expense includes the impact of restricted stock units and certain other equity compensation instruments we issued, as well as stock options and restricted stock assumed in acquisitions. For a further discussion of stock-based compensation expense, see the section entitled “Research and Development and Selling, General and Administrative Expense — Stock-Based Compensation Expense” below.

Research and Development Expense. Research and development expense consists primarily of salaries and related costs of employees engaged in research, design and development activities, costs related to engineering design tools and computer hardware, prototyping costs, subcontracting costs and facilities expenses. Amounts associated with stock-based compensation expense for employees engaged in research and development are shown separately. Research and development expense does not include amounts associated with amortization of purchased intangible assets related to research and development activities.

The 2005 increase in research and development expense resulted primarily from an increase of \$81.2 million in personnel-related expenses. The increase in personnel-related expenses is attributable to an increase in the number of employees engaged in research and development activities in 2005, resulting from both direct hiring and acquisitions, as well as increased cash compensation levels. Based upon past experience, we anticipate that research and development expense will continue to increase over the long term as a result of the growth and diversification of the markets we serve, new product opportunities, changes in our compensation policies and any expansion into new markets and technologies. We anticipate that research and development expense in the first quarter of 2006 will increase from the \$168.4 million incurred in the fourth quarter of 2005.

We remain committed to significant research and development efforts to extend our technology leadership in the wired and wireless communications markets in which we operate. We hold more than 1,250 U.S. patents, and we maintain an active program of filing for and acquiring additional U.S. and foreign patents in wired and wireless communications and other fields.

Selling, General and Administrative Expense. Selling, general and administrative expense consists primarily of personnel-related expenses, legal and other professional fees, facilities expenses, communications expenses and advertising expenses. Amounts associated with stock-based compensation expense for selling, general and administrative employees are shown separately. Selling, general and administrative expense does not include amounts associated with amortization of purchased intangible assets related to selling, general and administrative activities.

The 2005 increase in selling, general and administrative expense resulted primarily from an increase of \$28.1 million in personnel-related expenses. This increase in personnel-related expenses is attributable to an increase in the number of employees engaged in selling, general and administrative activities in 2005, resulting from both direct hiring and acquisitions, as well as increased cash compensation levels. Based upon past experience, we anticipate that selling, general and administrative expense will continue to increase over the long-

term to support any expansion of our operations through periodic changes in our infrastructure, changes in our compensation policies, acquisition and integration activities, international operations, and current and future litigation. We anticipate that selling, general and administrative expense in the first quarter of 2006 will increase from the \$68.0 million incurred in the fourth quarter of 2005.

Research and Development and Selling, General and Administrative Expense — Stock-Based Compensation Expense. Stock-based compensation expense generally represents the amortization of deferred compensation resulting from restricted stock units issued to employees and unvested equity compensation instruments assumed in acquisitions. Deferred compensation is presented as a reduction of shareholders' equity and is amortized ratably over the respective vesting periods of the applicable unvested securities, generally four years. During 2005 we recorded approximately \$204.9 million of deferred compensation primarily related to the issuance of approximately 5.6 million restricted stock units in connection with our regular annual equity compensation review for employees as well as for new hire grants. This deferred compensation is being amortized ratably over the vesting periods of the underlying restricted stock units, generally 16 quarters.

The decrease in research and development stock-based compensation expense in 2005 related primarily to a reduction in the amortization of deferred compensation resulting from assumed unvested equity compensation instruments becoming fully vested and the elimination of deferred compensation as a result of the termination of employment of certain employees, partially offset by the amortization of deferred compensation resulting from the issuance of restricted stock units in 2005.

Effective January 1, 2006 we adopted SFAS 123R. The balance of unearned stock-based compensation to be included in research and development and selling, general and administrative expense in the period 2006 through 2009 related to share-based awards unvested at December 31, 2005, as previously calculated under the disclosure-only requirements of SFAS 123, is approximately \$464.9 million and \$208.6 million, respectively. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately two years. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. To the extent that we grant additional equity securities to employees or assume unvested securities in connection with any acquisitions, our operating expenses will be increased by the additional unearned compensation resulting from those additional grants or acquisitions. We anticipate we will grant additional employee stock options and restricted stock units in the second quarter of 2006 as part of our regular annual equity compensation focal review program. The value of these grants is not included in the amount above, and the impact of these grants cannot be predicted at this time because it will depend on the number of share-based payments granted as part of the focal review program and the then current fair values. For an additional discussion of the effects of expensing of stock options, see "Recent Accounting Pronouncements," below.

Settlement Costs

We recorded \$110.0 million in settlement costs in 2005 primarily related to the settlement of securities class action litigation against us and certain of our current and former officers and directors. We recorded \$68.7 million in settlement costs in 2004. Of that amount \$60.0 million was related to the settlement of various litigation matters, and the remaining \$8.7 million reflected settlement costs related to a claim arising from an acquisition and certain indemnification costs. For a more detailed discussion of our settled and outstanding litigation, see Note 12 of Notes to Consolidated Financial Statements.

In-Process Research and Development

IPR&D totaled \$43.5 million and \$63.8 million for acquisitions completed in 2005 and 2004, respectively. The amounts allocated to IPR&D were determined through established valuation techniques used in the high technology industry and were expensed upon acquisition as it was determined that the underlying projects had not reached technological feasibility and no alternative future uses existed. In accordance with SFAS No. 2, *Accounting for Research and Development Costs*, as clarified by FASB Interpretation, or FIN, No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method — an Interpretation of FASB*

Statement No. 2, amounts assigned to IPR&D meeting the above-stated criteria were charged to expense as part of the allocation of purchase price.

The fair value of the IPR&D for each of the acquisitions was determined using the income approach. Under the income approach, the expected future cash flows from each project under development are estimated and discounted to their net present values at an appropriate risk-adjusted rate of return. Significant factors considered in the calculation of the rate of return are the weighted-average cost of capital and return on assets, as well as the risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. Each project was analyzed to determine the unique technological innovations, the existence and reliance on core technology, the existence of any alternative future use or current technological feasibility, and the complexity, cost and time to complete the remaining development. Future cash flows for each project were estimated based on forecasted revenue and costs, taking into account product life cycles and market penetration and growth rates.

The IPR&D charges include only the fair value of IPR&D performed as of the respective acquisition dates. The fair value of developed technology is included in identifiable purchased intangible assets. We believe the amounts recorded as IPR&D, as well as developed technology, represent the fair values and approximate the amounts an independent party would pay for these projects at the time of the respective acquisition dates.

The following table summarizes the significant assumptions at the acquisition dates underlying the valuations of IPR&D for our acquisitions completed in 2005 and 2004:

<u>Company Acquired</u>	<u>Development Projects</u>	<u>Weighted Average Estimated Percent Complete</u>	<u>Average Estimated Time to Complete (In years)</u>	<u>Estimated Cost to Complete (In millions)</u>	<u>Risk Adjusted Discount Rate</u>	<u>IPR&D (In millions)</u>
2005 Acquisitions						
Zeevo	Bluetooth wireless audio chipset	85%	1.0	\$ 5.5	22%	\$ 6.7
Siliqueant.....	10 GbE server controller	40	1.0	17.3	27	35.0
Athena	Tuners and low-power Wi-Fi	85	0.5	0.9	27	1.8
2004 Acquisitions						
RAIDCore	RAID software stack	60	1.0	1.8	23	2.3
Sand Video	Decoder/codecs chips	45	1.5	6.4	28	20.5
M-Stream.....	Algorithm implemented in DSP chip	30	1.0	1.3	26	3.7
Zyray	UMTS baseband co-processor	80	1.0	5.6	24	25.9
Alphamosaic.....	Multimedia co-processor	50	1.0	11.5	21	11.3

We completed the development projects related to all of our 2004 acquisitions, except for Sand Video. In the case of Sand Video, we reallocated the resources to focus on semiconductor products that we believe are a higher priority. We also completed the development project related to the Zeevo acquisition. All other 2005 development projects are still in process.

Except for the Sand Video project, actual results to date have been consistent, in all material respects, with our assumptions at the time of the acquisitions. The assumptions consist primarily of expected completion dates for the IPR&D projects, estimated costs to complete the projects, and revenue and expense projections for the products once they have entered the market.

As of the respective acquisition dates of the 2005 and 2004 acquisitions, certain ongoing development projects were in process. Research and development costs to bring the products of the acquired companies to technological feasibility are not expected to have a material impact on our results of operations or financial condition.

Impairment of Goodwill and Other Intangible Assets

The following table presents impairment of goodwill and other intangible assets for 2005 and 2004:

	Years Ended December 31,				Decrease	% Change
	2005		2004			
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Impairment of goodwill and other intangible assets	\$500	0.0%	\$18,000	0.7%	\$(17,500)	(97.2)%

We performed annual impairment assessments of the carrying value of goodwill recorded in connection with various acquisitions as required under SFAS No. 142, *Goodwill and Other Intangible Assets*, or SFAS 142, in October 2005 and 2004. Upon completion of the 2005 and 2004 annual impairment assessments, we determined no impairment was indicated as the estimated fair values of our four reporting units, determined and identified in accordance with SFAS 142, exceeded their respective carrying values.

We estimated the fair values of our reporting units primarily using the income approach valuation methodology that includes the discounted cash flow method, taking into consideration the market approach and certain market multiples as verification of the values derived using the discounted cash flow methodology. The discounted cash flows for each reporting unit were based on discrete four year financial forecasts developed by management for planning purposes and consistent with those distributed to our Board of Directors. Cash flows beyond the four year discrete forecasts were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends for each identified reporting unit and considered long-term earnings growth rates for publicly traded peer companies. Future cash flows were discounted to present value by incorporating the present value techniques discussed in FASB Concepts Statement 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, or Concepts Statement 7. Specifically, the income approach valuations included reporting unit cash flow discount rates ranging from 13% to 17%, and terminal value growth rates ranging from 0% to 10%. Publicly available information regarding the market capitalization of our company was also considered in assessing the reasonableness of the cumulative fair values of our reporting units estimated using the discounted cash flow methodology.

In November 2005 we acquired an issued U.S. patent, with various foreign counterparts, related to integrated circuit package testing for \$0.5 million. In January 2004 we acquired approximately 80 patents and patent applications related to the read channel and hard disk controller market for \$18.0 million. The immediate purpose for acquiring these patent portfolios was to assist us in the defense and settlement of then ongoing and future intellectual property litigation. As a result, we were unable to estimate any future cash flows from the patents. We also did not have any plans to resell the patents to a third party. Due to our intended use for these assets, we concluded that indicators of impairment existed upon acquisition of the patents because the carrying value of the patents might not be recoverable. Upon determining that indicators of impairment existed, we performed recoverability tests in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or SFAS 144. Estimates of future cash flows used to test the recoverability of long-lived assets should include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of the use and eventual disposition of the asset. The only cash flows expected to arise as a direct result of the use of the patents are the cash savings expected to result from reduced but undeterminable litigation expenses over the next several years. Due to the unpredictable nature of legal disputes, it is not possible to reasonably: (i) determine if our strategy with respect to the patents will be successful, (ii) forecast litigation expenses that would have been incurred if the patent portfolio was not acquired, or (iii) forecast cash flows generated as a result of acquiring the patents. As a result, no reasonable analysis could be prepared to support future cash flows associated with the patents. Accordingly, pursuant to SFAS 144 the patents were determined to be fully impaired at their respective dates of acquisition. The impairment charge for the patent portfolio was classified as an impairment of goodwill and other intangible assets in the consolidated statements of operations in 2004.

See Notes 1 and 9 of Notes to Consolidated Financial Statements for a further discussion of impairment of goodwill and other intangible assets.

Restructuring Costs

For a discussion of activity and liability balances related to our past restructuring plans, see Note 10 of Notes to Consolidated Financial Statements.

Interest and Other Income, Net

The following table presents interest and other income, net, for 2005 and 2004:

	Years Ended December 31,					
	2005		2004			
	<u>Amount</u>	<u>% of Net Revenue</u>	<u>Amount</u>	<u>% of Net Revenue</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
	(In thousands, except percentages)					
Interest income, net	\$51,207	1.9%	\$15,010	0.7%	\$36,197	241.2%
Other income, net	3,465	0.2	7,317	0.3	(3,852)	(52.6)

Interest income, net, reflects interest earned on cash and cash equivalents and marketable securities balances. The increase in interest income, net, was the result of an overall increase in our cash and marketable securities balances and an increase in market interest rates. Our cash and marketable securities balances increased from \$1.276 billion at December 31, 2004 to \$1.876 billion at December 31, 2005. The weighted average interest rates earned for 2005 and 2004 were 3.48% and 1.73%, respectively.

Other income, net, primarily includes recorded gains and losses on strategic investments as well as gains and losses on foreign currency transactions and dispositions of property and equipment. We recognized gains from sales of strategic investments in the amounts of \$1.2 million and \$5.2 million in 2005 and 2004, respectively.

Provision for Income Taxes

The following table presents the provision for income taxes for 2005 and 2004:

	Years Ended December 31,				Decrease	% Change
	2005		2004			
	Amount	% of Net Revenue	Amount	% of Net Revenue		
(In thousands, except percentages)						
Provision (benefit) for income taxes	\$(20,220)	(0.7)%	\$75,607	3.2%	\$(95,827)	(126.7)%

The federal statutory rate was 35% for 2005 and 2004. During 2005 we recorded deductible settlement costs of \$110.0 million, which eliminated our 2005 federal taxable income before tax deductions from employee stock options, and we recorded no tax benefits for our resulting domestic tax losses. Other differences between our effective tax rates for 2005 and 2004 resulted primarily from a favorable geographic mix of income and reduced foreign tax rates in 2005. In addition, we realized tax benefits resulting from the reversal of certain prior period tax accruals of \$28.3 million and \$21.3 million in 2005 and 2004, respectively, related to foreign subsidiaries primarily due to the expiration of the statute of limitations for the assessment of taxes related to the prior periods.

We utilize the liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes*, or SFAS 109. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. SFAS 109 further states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result our recent cumulative losses in the U.S. and certain foreign jurisdictions, and the full utilization of its loss carryback

opportunities, we have concluded that a full valuation allowance should be recorded in such jurisdictions. In certain other foreign jurisdictions where we do not have cumulative losses, we recorded net deferred tax assets of \$1.4 million in accordance with SFAS 109. See Note 5 of Notes to Consolidated Financial Statements.

Years Ended December 31, 2004 and 2003

Net Revenue, Cost of Revenue and Gross Profit

The following table presents net revenue, cost of revenue and gross profit for 2004 and 2003:

	Years Ended December 31,		Years Ended December 31,		Increase (Decrease)	% Change
	2004	% of Net Revenue	2003	% of Net Revenue		
	Amount		Amount			
	(In thousands, except percentages)					
Net revenue	\$2,400,610	100.0%	\$1,610,095	100.0%	\$790,515	49.1%
Cost of revenue ⁽¹⁾	1,191,927	49.6	821,794	51.1	370,133	45.0
Cost of revenue — stock- based compensation	1,367	0.1	17,982	1.1	(16,615)	(92.4)
Gross profit	<u>\$1,207,316</u>	<u>50.3%</u>	<u>\$ 770,319</u>	<u>47.8%</u>	<u>\$436,997</u>	56.7

(1) Excludes stock-based compensation expense, which is presented separately by respective expense category. Stock-based compensation expense includes the impact of restricted stock units and certain other equity compensation instruments we issued, as well as stock options and restricted stock assumed in acquisitions and the effects of the stock option exchange program in 2003.

Net Revenue. The following table presents net revenue from each of our major target markets and their respective contributions to the increase in net revenue in 2004 as compared to 2003:

	Years Ended December 31,		Years Ended December 31,		Increase	% Change
	2004	% of Net Revenue	2003	% of Net Revenue		
	Amount		Amount			
	(In thousands, except percentages)					
Enterprise networking	\$1,121,090	46.7%	\$ 917,876	57.0%	\$203,214	22.1%
Broadband communications	780,383	32.5	373,562	23.2	406,821	108.9
Mobile and wireless	499,137	20.8	318,657	19.8	180,480	56.6
Net revenue	<u>\$2,400,610</u>	<u>100.0%</u>	<u>\$1,610,095</u>	<u>100.0%</u>	<u>\$790,515</u>	49.1

The growth in net revenue resulted primarily from an increase in the volume of shipments of our semiconductor products stemming from the rise in demand for our products in each of our major target markets in 2004, except for Intel processor-based server chipsets, included in enterprise networking, which declined. The previously anticipated decline in shipments of our Intel processor-based server chipsets resulted in a \$46.9 million decrease in net revenue for those products in 2004 as compared with 2003.

We recorded rebates to certain customers in the amounts of \$263.6 million and \$165.2 million in 2004 and 2003, respectively.

Cost of Revenue and Gross Profit

The 2004 increase in gross profit resulted primarily from the 49.1% increase in net revenue. Gross margin increased from 47.8% in 2003 to 50.3% in 2004. The primary factors that contributed to this 2.5 percentage point improvement in gross margin were (i) a 1.5 percentage point improvement in product margin primarily due to changes in product mix, and (ii) decreases in stock option exchange expense, the amortization of purchased intangible assets and stock-based compensation expense, which improved gross margin by 0.7, 0.6 and 0.3 percentage points, respectively, offset in part by an increase in the provision for excess and obsolete inventory of 0.4 percentage points.

In 2004 we increased our provision for excess and obsolete inventory as compared to 2003 as a result of an increase in gross inventory. The primary factors that resulted in increased inventory were the expansion of inventory in response to higher levels of purchase orders received from our customers, shorter lead times for certain of our customers, and the buildup of buffer inventory based upon our forecast of future demand for certain key products.

The 2004 decrease in stock-based compensation expense related primarily to stock option exchange expense of approximately \$11.5 million recorded in 2003, as well as a reduction in the number of assumed unvested options and shares of restricted stock being amortized and the elimination of deferred compensation as a result of the termination of employment of certain employees. For a further discussion, see “Stock Option Exchange Expense” below.

Research and Development and Selling, General and Administrative Expenses

The following table presents research and development and selling, general and administrative expenses for 2004 and 2003:

	Years Ended December 31,				Increase (Decrease)	% Change
	2004	% of Net Revenue	2003	% of Net Revenue		
	Amount		Amount			
(In thousands, except percentages)						
Research and development ⁽¹⁾	\$495,075	20.6%	\$434,018	27.0%	\$ 61,057	14.1%
Research and development — stock-based compensation	58,611	2.4	219,337	13.6	(160,726)	(73.3)
Selling, general and administrative ⁽¹⁾	212,727	8.9	190,138	11.8	22,589	11.9
Selling, general and administrative — stock-based compensation	14,709	0.6	44,623	2.7	(29,914)	(67.0)

(1) Excludes stock-based compensation expense, which is presented separately by respective expense category. Stock-based compensation expense includes the impact of restricted stock units and certain other equity compensation instruments we issued, as well as stock options and restricted stock assumed in acquisitions. For a further discussion of stock-based compensation expense, see the section entitled “Research and Development and Selling, General and Administrative Expense — Stock-Based Compensation Expense” below.

Research and Development Expense

The 2004 increase in research and development expense resulted primarily from a \$41.2 million increase in personnel-related expenses. The increase in personnel-related expenses was primarily due to a 22.3% increase in the number of employees engaged in research and development activities in 2004, through acquisitions and hiring. In addition, there were increases in outsourced engineering, facilities and engineering design tool expenses in 2004, offset in part by lower depreciation expense on computer software and equipment.

Selling, General and Administrative Expense

The 2004 increase in selling, general and administrative expense in absolute dollars resulted primarily from a \$22.5 million increase in personnel-related expenses. The increase in personnel-related expenses was primarily due to a 22.1% increase in the number of employees engaged in selling, general and administrative activities in 2004, through acquisitions and hiring. In addition, there were increases in expenses for travel and entertainment, marketing and accounting, which were offset by decreases in legal expense.

Research and Development and Selling, General and Administrative Expense — Stock-Based Compensation Expense

The 2004 decrease in stock-based compensation expense related primarily to a reduction in the number of assumed unvested options and shares of restricted stock being amortized and the elimination of deferred compensation as a result of the termination of employment of certain employees.

Settlement Costs

We recorded \$68.7 million in settlement costs in 2004. Of this amount, \$60.0 million was related to the settlement of various litigation matters, and the remaining \$8.7 million reflected settlement costs related to a claim arising from an acquisition and certain indemnification costs.

In May 2003 we completed a management transition at our ServerWorks Corporation subsidiary and entered into a settlement agreement resolving various issues and disputes raised by certain employees and former securities holders of ServerWorks, including issues and disputes with three departing employees, relating to agreements entered into when we acquired ServerWorks in January 2001. In connection with the settlement, we incurred approximately \$25.2 million in cash payments and expenses and recorded a one-time non-cash charge of approximately \$88.1 million in May 2003. This non-cash charge reflected the acceleration from future periods of stock-based compensation expense, most of which was previously recorded as deferred compensation upon the acquisition of ServerWorks (and based upon stock market valuations at the time of the acquisition).

In August 2003 we agreed with Intel Corporation to settle all litigation between the companies as well as litigation involving our respective affiliates. In connection with the settlement agreement, we paid Intel \$60.0 million in 2003.

We recorded an additional \$21.2 million in settlement costs in 2003 in connection with the settlement of other litigation and third party claims.

In-Process Research and Development

IPR&D totaled \$63.8 million for acquisitions completed in 2004. No comparable amount of IPR&D was recorded in 2003. For a description of the 2004 IPR&D projects, including the valuation techniques used and significant assumptions at the acquisition dates underlying the valuations, as well as an update on the status of such projects as of December 31, 2005, see the discussion included under “Years Ended December 31, 2005 and 2004,” above.

Impairment of Goodwill and Other Intangible Assets

We performed annual impairment assessments of the carrying value of goodwill recorded in connection with various acquisitions as required under SFAS 142, in October 2004 and 2003. There was no impairment recorded for goodwill in 2004, however we did record an \$18.0 million impairment of other intangible assets in accordance with SFAS 144. For the description of the annual impairment assessment as well as the impairment of other intangible assets in 2004, see the comparable discussion included under “Years Ended December 31, 2005 and 2004,” above.

In 2003 we recorded an impairment for goodwill and other intangible assets of approximately \$439.6 million. In May 2003 we determined that indicators of impairment existed for two of our reporting units, ServerWorks and mobile communications, and an additional impairment assessment was performed at that time. Based on that assessment, we recorded a charge of \$438.6 million in June 2003 to write down the value of goodwill associated with the affected reporting units. Of this charge, \$414.5 million represented the balance of goodwill related to the ServerWorks reporting unit and \$24.1 million represented the balance of goodwill related to the mobile communications reporting unit.

For a further discussion of impairment of goodwill and other intangible assets, including the primary factors that contributed to the impairment assessment, see Notes 1 and 9 of Notes to Consolidated Financial Statements.

Stock Option Exchange Expense

In April 2003 we commenced an offering to our employees to voluntarily exchange certain vested and unvested stock options. Under the program, employees holding options to purchase our Class A or Class B common stock were given the opportunity to exchange certain of their existing options, with exercise prices at or above \$23.58 per share. In connection with the offering, we recorded stock option exchange expenses for

employees engaged in research and development and selling, general and administrative activities in the amounts of \$164.8 million and \$44.5 million, respectively in 2003. No comparable charges were incurred in 2004.

For further discussion of stock option exchange expense, see Note 8 of Notes to Consolidated Financial Statements.

Interest and Other Income, Net

The following table presents interest and other income, net, for 2004 and 2003:

	Years Ended December 31,				Increase (Decrease)	% Change
	2004		2003			
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Interest income, net	\$15,010	0.7%	\$ 6,828	0.4%	\$ 8,182	119.8%
Other income, net	7,317	0.3	26,053	1.6	(18,736)	(71.9)

Interest Income, Net. The increase in 2004 was primarily the result of an overall increase in our cash and marketable securities balances and an increase in market interest rates.

Other Income, Net. We recognized gains from strategic investments in the amounts of \$5.2 million and \$24.4 million in 2004 and 2003, respectively. The 2003 gain on investment was incurred on an investment that was previously written down by \$24.1 million in September 2002, representing an other-than-temporary decline in the value of that investment at the time. The 2003 gain was offset in part by \$2.3 million in losses, representing other-than-temporary declines in the value of other strategic investments.

Provision for Income Taxes

The following table presents the provision for income taxes for 2004 and 2003:

	Years Ended December 31,				Increase	% Change
	2004		2003			
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(In thousands, except percentages)					
Provision for income taxes	\$75,607	3.2%	\$25,127	1.5%	\$50,480	200.9%

The federal statutory rate was 35% for 2004 and 2003. The difference between our effective tax rate for 2004 and the federal statutory rate resulted primarily from the effects of nondeductible IPR&D and foreign earnings taxed at rates differing from the federal statutory rate. In addition, we realized tax benefits resulting from the reversal of certain prior period tax accruals of \$21.3 million related to foreign subsidiaries due to the expiration of the statute of limitations for the assessment of taxes related to such periods. The difference between our effective tax rate for 2003 and the federal statutory rate resulted primarily from the effects of impairment of goodwill, foreign earnings taxed at rates differing from the federal statutory rate, as well as the effects of 2003 domestic losses recorded without tax benefit.

As a result of our cumulative losses and the full utilization of our loss carrybacks, we provided a full valuation allowance against our net deferred tax assets in 2004 and 2003.

Subsequent Events

Increase in Share Repurchase Program

On January 25, 2006 our Board of Directors approved an amendment to the share repurchase program authorized in February 2005. The amendment extends the program through January 26, 2007 and authorizes the repurchase of additional shares of the our Class A common stock having a total market value of up to \$500 million from time to time during the period beginning January 26, 2006 and ending January 26, 2007.

Stock Split

On January 25, 2006 our Board of Directors approved a three-for-two split of our common stock, which will be effected in the form of a stock dividend. Holders of record of our Class A and Class B common stock as of the close of business on February 6, 2006 ("Record Date") will receive one additional share of Class A or Class B common stock, as applicable, for every two shares of such class held on the Record Date. The additional Class A and Class B shares will be distributed on or about February 21, 2006. Cash will be paid in lieu of fractional shares. Share and per share amounts in the accompanying Consolidated Financial Statements have *not* been restated to reflect this pending stock split.

Pending Acquisition

In January 2006 we announced that we had signed a definitive agreement to acquire Sandburst Corporation, a privately-held fabless semiconductor company specializing in the design and development of scalable packet switching and routing systems-on-a-chip (SoCs) that are deployed in enterprise core and metropolitan Ethernet networks. We expect to pay total consideration of approximately \$80 million in connection with the acquisition. Of such consideration, \$75 million will be paid in cash upon closing of the acquisition in exchange for all outstanding shares of capital stock and vested stock options of Sandburst. A portion of the cash consideration will be placed in escrow pursuant to the terms of the acquisition agreement. Broadcom will also assume all unvested employee stock options of Sandburst, which will entitle the holders to receive, upon vesting, up to approximately 100,000 shares of Broadcom Class A common stock, having a total value of approximately \$5 million based upon the terms of the acquisition agreement. The closing, which is expected to occur during the first quarter of 2006, remains subject to customary closing conditions. We may record a one-time charge for purchased in-process research and development expenses related to the acquisition in the first quarter of 2006. The amount of that charge, if any, has not yet been determined.

Recent Accounting Pronouncements

In December 2004 the FASB issued SFAS 123R, which is a revision of SFAS 123. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant date fair values and does not allow the previously permitted disclosure-only method as an alternative to financial statement recognition. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25, and related interpretations and amends SFAS No. 95, *Statement of Cash Flows*. Effective January 1, 2006 we adopted SFAS 123R. We plan to use the modified-prospective method of recognition of compensation expense related to share-based payments.

The adoption of the SFAS 123R fair value method will have a significant adverse impact on our reported results of operations, although it will have no impact on our overall financial position. The balance of unearned stock-based compensation to be included in the period 2006 through 2009 related to share-based awards unvested at December 31, 2005, as previously calculated under the disclosure-only requirements of SFAS 123, is approximately \$710.0 million. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately two years. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. To the extent that we grant additional equity securities to employees or assume unvested securities in connection with any acquisitions, our stock-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions. We anticipate we will grant additional employee stock options and restricted stock units in the second quarter of 2006 as part of our regular annual equity compensation focal review program. The fair value of these grants is not included in the amount above, as the impact of these grants cannot be predicted at this time because it will depend on the number of share-based payments granted as part of the focal review program and the then current fair values.

Had we adopted SFAS 123R in prior periods, the magnitude of the impact of that standard on our results of operations would have approximated the impact of SFAS 123 assuming the application of the Black-Scholes option pricing model as described in the disclosure of pro forma net income (loss) and pro forma net income (loss) per share in Note 1 of Notes to Consolidated Financial Statements. SFAS 123R also requires the benefits of

tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement may reduce net operating cash flows and increase net financing cash flows in periods after its adoption. While we cannot estimate what those amounts will be in the future, the amount of operating cash flows recognized in 2004 related to such excess tax deductions was \$81.8 million. No comparable amounts were recorded in 2005 or 2003.

Liquidity and Capital Resources

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

	December 31, 2005	December 31, 2004	Increase (Decrease)
		(In thousands)	
Working capital	<u>\$1,741,254</u>	<u>\$1,087,342</u>	<u>\$653,912</u>
Cash and cash equivalents ⁽¹⁾	\$1,437,276	\$ 858,592	\$578,684
Short-term marketable securities ⁽¹⁾	295,402	324,041	(28,639)
Long-term marketable securities	<u>142,843</u>	<u>92,918</u>	<u>49,925</u>
	<u>\$1,875,521</u>	<u>\$1,275,551</u>	<u>\$599,970</u>

(1) Included in working capital.

Our working capital increased in 2005 primarily related to cash provided by operations and cash proceeds received from issuances of common stock in connection with the exercise of employee stock options and pursuant to our employee stock purchase plan, offset in part by cash paid to settle our securities class action litigation, the purchase of long-term marketable securities and property and equipment, acquisitions, and repurchases of our Class A common stock.

Cash Provided and Used in 2005 and 2004. Cash and cash equivalents increased to \$1.437 billion at December 31, 2005 from \$858.6 million at December 31, 2004 as a result of cash provided by operating and financing activities, offset in part by cash used in investing activities.

In 2005 our operating activities provided \$446.7 million in cash. This was primarily the result of \$411.7 million in net income and \$171.3 million in net non-cash operating expenses, offset in part by net cash used of \$136.3 million in changes in operating assets and liabilities. Non-cash items included in net income include depreciation and amortization, stock-based compensation expense, amortization of purchased intangible assets, IPR&D, impairment of intangible assets and gains on strategic investments. In 2004 our operating activities provided \$501.8 million in cash. This was primarily the result of \$218.7 million in net income and \$324.7 million in net non-cash operating expenses, offset in part by net cash used of \$41.6 million from changes in operating assets and liabilities. Non-cash items included in net income include depreciation and amortization, stock-based compensation expense, amortization of purchased intangible assets, IPR&D, impairment of intangible assets, tax benefit from stock plans and gains on strategic investments.

Accounts receivable increased \$102.3 million from \$205.1 million in 2004 to \$307.4 million in 2005. The increase in accounts receivable was primarily the result of the \$281.2 million increase in net revenue in the fourth quarter of 2005 to \$820.6 million, as compared with \$539.4 million in the fourth quarter of 2004. We typically bill customers on an open account basis subject to our standard net thirty day payment terms. If, in the longer term, our revenue continues to increase as it has in the most recent past, it is likely that our accounts receivable balance will also increase. Our accounts receivable could also increase if customers delay their payments or if we grant extended payment terms to customers.

Inventories increased \$66.3 million, from \$128.3 million in 2004 to \$194.6 million in 2005, primarily in response to higher levels of purchase orders received from our customers and the buildup of buffer inventories based upon our forecast of future demand for certain key products. In the future, our inventory levels will continue to be determined based on the level of purchase orders received as well as the stage at which our

products are in their respective product life cycles and competitive situations in the marketplace. Such considerations are balanced against the risk of obsolescence or potentially excess inventory levels.

Investing activities used cash of \$173.1 million in 2005, which was primarily the result of \$111.5 million net cash paid in acquisitions, the purchase of \$41.8 million of capital equipment to support our operations, \$21.3 million used in the net purchase of marketable securities and the purchase of \$0.5 million of strategic investments, offset by \$1.9 million in net proceeds received from the sale of strategic investments. Investing activities used cash of \$456.0 million in 2004, which was primarily the result of \$333.3 million used in the net purchase of marketable securities, \$74.8 million net cash paid in acquisitions, the purchase of \$49.9 million of capital equipment to support our operations and the purchase of \$3.2 million of strategic investments, offset by \$5.2 million in net proceeds received from the sale of strategic investments.

Our financing activities provided \$305.1 million in cash in 2005, which was primarily the result of \$458.1 million in net proceeds received from issuances of common stock upon exercises of stock options and pursuant to our employee stock purchase plan, offset in part by \$153.8 million in repurchases of our Class A common stock pursuant to our share repurchase program implemented in February 2005 and \$2.5 million for the repayment of debt assumed in connection with an acquisition. Our financing activities provided \$254.1 million in cash in 2004, which was primarily the result of \$253.3 million in net proceeds received from issuances of common stock upon exercises of stock options and pursuant to our employee stock purchase plan.

In January 2006, we amended our share repurchase program to authorize repurchases of Class A common stock having an aggregate market value of up to \$500 million from time to time during the period beginning January 26, 2006 and ending January 26, 2007, depending on market conditions and other factors.

Due to the increase in the price of our Class A common stock, a greater number of stock options were exercised by employees, and we received more proceeds from the exercise of stock options, in 2005 than in 2004. The timing and number of stock option exercises and the amount of cash proceeds we receive through those exercises are not within our control, and in the future we may not generate as much cash from the exercise of stock options as we have in the past. Moreover, it is now our practice to issue a combination of restricted stock units and stock options to employees, which will reduce future growth in the number of stock options available for exercise. Unlike the exercise of stock options, the issuance of shares upon vesting of restricted stock units does not result in any cash proceeds to Broadcom and requires the use of cash as we determined to allow employees to elect to have a portion of the shares issuable upon vesting of restricted stock units during 2005 and 2006 withheld to satisfy withholding taxes and to make corresponding cash payments to the appropriate tax authorities on each employee's behalf.

In January 2006 we received approximately \$236.9 million from the exercise of stock options. The effects of those exercises are not included in our financial position as of December 31, 2005.

Obligations and Commitments. The following table summarizes our contractual payment obligations and commitments as of December 31, 2005:

	Payment Obligations by Year					There- after	Total
	2006	2007	2008	2009	2010		
	(In thousands)						
Operating leases	\$ 95,862	\$88,986	\$64,601	\$41,445	\$29,733	\$132,670	\$453,297
Inventory and related purchase obligations	297,468	612	—	—	—	—	298,080
Other purchase obligations	38,303	2,135	—	—	—	—	40,438
Restructuring liabilities	8,083	3,663	1,790	1,790	895	—	16,221
Accrued settlement payments	2,047	2,000	2,000	—	—	—	6,047
Total	<u>\$441,763</u>	<u>\$97,396</u>	<u>\$68,391</u>	<u>\$43,235</u>	<u>\$30,628</u>	<u>\$132,670</u>	<u>\$814,083</u>

We lease our facilities and certain engineering design tools and information systems equipment under operating lease agreements that expire at various dates through 2017. In December 2004 we entered into a lease

agreement under which our corporate headquarters will move from its present location to new facilities in Irvine, California with an aggregate of approximately 0.7 million square feet. The lease term is for a period of ten years and two months beginning after the completion of the first two buildings and related tenant improvements, which is anticipated to occur in the first quarter of 2007. The aggregate rent for the term of the lease, approximately \$183.0 million, is included in the table above.

Inventory and related purchase obligations represent purchase commitments for silicon wafers and assembly and test services. We depend upon third party subcontractors to manufacture our silicon wafers and provide assembly and test services. Due to lengthy subcontractor lead times, we must order these materials and services from subcontractors well in advance. We expect to receive and pay for these materials and services within the ensuing six months. Our subcontractor relationships typically allow for the cancellation of outstanding purchase orders, but require payment of all expenses incurred through the date of cancellation.

Other purchase obligations represent purchase commitments for lab test equipment, computer hardware, and information systems infrastructure, and other purchase commitments made in the ordinary course of business.

Our restructuring liabilities represent estimated future lease and operating costs from restructured facilities, less offsetting sublease income, if any. These costs will be paid over the respective lease terms through 2010. These amounts are included in our consolidated balance sheet.

Settlement payments represent payments to be made in connection with certain settlement and license agreements entered into in 2004 and 2003. These amounts are included in our consolidated balance sheet.

For purposes of the table above, obligations for the purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current manufacturing needs and are typically fulfilled by our vendors within a relatively short time horizon. We have additional purchase orders (not included in the table above) that represent authorizations to purchase rather than binding agreements. We do not have significant agreements for the purchase of inventories or other goods specifying minimum quantities or set prices that exceed our expected requirements.

Prospective Capital Needs. We believe that our existing cash, cash equivalents and marketable securities, together with cash generated from operations and from the exercise of employee stock options and the purchase of common stock through our employee stock purchase plan, will be sufficient to cover our working capital needs, capital expenditures, investment requirements, commitments and repurchases of our Class A common stock for at least the next 12 months. However, it is possible that we may need to raise additional funds to finance our activities beyond the next 12 months or to consummate acquisitions of other businesses, assets, products or technologies. We could raise such funds by selling equity or debt securities to the public or to selected investors, or by borrowing money from financial institutions. In addition, even though we may not need additional funds, we may still elect to sell additional equity or debt securities or obtain credit facilities for other reasons. We have in effect a universal shelf registration statement on SEC Form S-3 that allows us to sell, in one or more public offerings, shares of our Class A common stock, shares of preferred stock or debt securities, or any combination of such securities, for proceeds in an aggregate amount of up to \$750 million. However, we have not issued nor do we have immediate plans to issue securities under the universal shelf registration statement. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of our common stock.

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

- the overall levels of sales of our products and gross profit margins;
- our business, product, capital expenditure and research and development plans, and product and technology roadmaps;

- the market acceptance of our products;
- repurchases of our Class A common stock;
- litigation expenses, settlements and judgments;
- volume price discounts and customer rebates;
- the levels of inventory and accounts receivable that we maintain;
- acquisitions of other businesses, assets, products or technologies;
- changes in our compensation policies;
- issuance of restricted stock units and the related payments in cash for withholding taxes due from employees during 2006 and possibly during future years;
- capital improvements for new and existing facilities;
- technological advances;
- our competitors' responses to our products;
- our relationships with suppliers and customers;
- the availability of sufficient foundry, assembly and test capacity and packaging materials;
- expenses related to our restructuring plans;
- the level of exercises of stock options and stock purchases under our employee stock purchase plan; and
- general economic conditions and specific conditions in the semiconductor industry and wired and wireless communications markets, including the effects of recent international conflicts and related uncertainties.

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We maintain an investment portfolio of various holdings, types and maturities. We do not use derivative financial instruments. We place our cash investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument.

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of December 31, 2005 the carrying value of our cash and cash equivalents approximated fair value.

Our marketable securities, consisting of U.S. Treasury and agency obligations, commercial paper, corporate notes and bonds, time deposits, foreign notes and certificates of deposits, are generally classified as held-to-maturity and are stated at cost, adjusted for amortization of premiums and discounts to maturity. In addition, in the past certain of our short term marketable securities were classified as available-for-sale and were stated at fair value, which was equal to cost due to the short-term maturity of these securities. In the event that there were to be a difference between fair value and cost in any of our available-for-sale securities, unrealized gains and losses on these investments would be reported as a separate component of accumulated other comprehensive income (loss). Our investment policy for marketable securities requires that all securities mature in three years or less, with a weighted average maturity of no longer than 18 months. As of December 31, 2005 the carrying value and fair value of these securities were approximately \$438.2 million and \$435.7 million, respectively. The fair value of our marketable securities fluctuates based on changes in market conditions and interest rates; however, given the short-term maturities, we do not believe these instruments are subject to significant market or interest rate risk.

The carrying value, maturity and estimated fair value of our cash equivalents and marketable securities as of December 31, 2005 and 2004, respectively, were as follows:

	Carrying Value December 31, 2005	Maturity			Fair Value December 31, 2005
		2006	2007	2008	
		(In thousands, except interest rates)			
Investments					
Cash equivalents	\$835,598	\$835,598	\$ —	\$ —	\$835,202
Weighted average interest rate	4.38%	4.38%	—	—	
Marketable securities	\$438,245	\$295,402	\$103,985	\$38,858	\$435,702
Weighted average interest rate	3.77%	3.62%	3.94%	4.45%	
	Carrying Value December 31, 2004	Maturity			Fair Value December 31, 2004
		2005	2006	2007	
		(In thousands, except interest rates)			
Investments					
Cash equivalents	\$356,845	\$356,845	\$ —	\$ —	\$356,831
Weighted average interest rate	2.33%	2.33%	—	—	
Marketable securities	\$416,959	\$324,041	\$69,717	\$23,201	\$415,757
Weighted average interest rate	2.40%	2.30%	2.64%	3.12%	

Our strategic equity investments are generally classified as available-for-sale and are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss) for our publicly traded investments. We have also invested in privately held companies, the majority of which can still be considered to be in the start-up or development stage. We make investments in key business partners and other industry participants to establish strategic relationships, expand existing relationships, and achieve a return on our investment. These investments are inherently risky, as the markets for the technologies or products these companies have under development are typically in the early stages and may never materialize. Likewise, the development projects of these companies may not be successful. In

addition, early stage companies often fail for various other reasons. Consequently, we could lose our entire investment in these companies. As of December 31, 2005, the carrying and fair value of our strategic investments was approximately \$5.0 million.

Item 8. *Financial Statements and Supplementary Data*

The financial statements and supplementary data required by this item are included in Part IV, Item 15 of this Report.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2005, the end of the period covered by this Report.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005. Our management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Attestation Report of Independent Registered Public Accounting Firm

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Board of Directors and Shareholders
Broadcom Corporation**

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing above, that Broadcom Corporation maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Broadcom Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Broadcom Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Broadcom Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Broadcom Corporation as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 of Broadcom Corporation and our report dated February 9, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Orange County, California
February 9, 2006

Item 9B. Other Information

On February 8, 2006 our Board of Directors approved a new cash compensation program for non-employee directors of the company, which supersedes all prior cash compensation arrangements for non-employee directors effective as of January 1, 2006. Under the new program, each non-employee director will receive an annual cash retainer of \$75,000. The Chairman of the Audit Committee will receive an additional \$25,000 annual cash retainer and the Chairmen of the Compensation and Nominating & Corporate Governance Committees and the Lead Independent Director will each receive an additional \$10,000 annual cash retainer. All of the retainers will be paid in quarterly installments in arrears, and will be prorated as appropriate based upon the capacities in which each individual non-employee director serves from time to time. Directors who are also employees of Broadcom will continue to receive no additional cash compensation for their service as directors.

PART III.**Item 10. Directors and Executive Officers of the Registrant**

(a) *Identification of Directors.* The information under the caption “Election of Directors,” appearing in the Proxy Statement, is hereby incorporated by reference.

(b) *Identification of Executive Officers and Certain Significant Employees.* The information under the caption “Elected Officers,” appearing in the Proxy Statement, is hereby incorporated by reference.

(c) *Compliance with Section 16(a) of the Exchange Act.* The information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance,” appearing in the Proxy Statement, is hereby incorporated by reference.

(d) *Code of Ethics.* The information under the caption “Corporate Governance,” appearing in the Proxy Statement, is hereby incorporated by reference.

Item 11. Executive Compensation

The information under the caption “Executive Compensation and Other Information,” appearing in the Proxy Statement, is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information under the captions “Ownership of Securities” and “Equity Compensation Plan Information,” appearing in the Proxy Statement, is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions

The information under the caption “Certain Transactions,” appearing in the Proxy Statement, is hereby incorporated by reference.

Item 14. Principal Accounting Fees and Services

The information under the caption “Fees Paid to Independent Registered Public Accounting Firm,” appearing in the Proxy Statement, is hereby incorporated by reference.

PART IV.

Item 15. *Exhibits and Financial Statement Schedules*

(a) 1. *Financial Statements.*

The following consolidated financial statements, and related notes thereto, of Broadcom and the Report of Independent Registered Public Accounting Firm are filed as part of this Form 10-K:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2005 and 2004	F-2
Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003	F-3
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003	F-5
Notes to Consolidated Financial Statements	F-6

2. *Financial Statement Schedules.*

The following financial statement schedule of Broadcom and the related Report of Independent Registered Public Accounting Firm are filed as part of this Form 10-K:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm on Financial Statement Schedule	S-1
Schedule II — Consolidated Valuation and Qualifying Accounts	S-2

All other schedules have been omitted because they are not applicable or not required, or the information is included in the Consolidated Financial Statements or Notes thereto.

3. *Exhibits.*

The exhibits listed on the accompanying index to exhibits immediately following the financial statements are filed as part of, or hereby incorporated by reference into, this Report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders Broadcom Corporation

We have audited the accompanying consolidated balance sheets of Broadcom Corporation as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Broadcom Corporation at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Broadcom Corporation's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 9, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Orange County, California
February 9, 2006

CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 31,	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,437,276	\$ 858,592
Short-term marketable securities	295,402	324,041
Accounts receivable (net of allowance for doubtful accounts of \$6,242 in 2005 and \$6,900 in 2004)	307,356	205,135
Inventory	194,571	128,294
Prepaid expenses and other current assets	101,271	68,380
Total current assets	2,335,876	1,584,442
Property and equipment, net	96,438	107,160
Long-term marketable securities	142,843	92,918
Goodwill	1,149,602	1,062,188
Purchased intangible assets, net	7,332	17,074
Other assets	20,108	22,057
Total assets	<u>\$ 3,752,199</u>	<u>\$ 2,885,839</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 289,069	\$ 171,248
Wages and related benefits	69,837	42,697
Deferred revenue	2,053	3,648
Accrued liabilities	233,663	279,507
Total current liabilities	594,622	497,100
Commitments and contingencies		
Long-term liabilities	12,138	22,753
Shareholders' equity:		
Convertible preferred stock, \$.0001 par value:		
Authorized shares — 10,000,000 — none issued and outstanding	—	—
Class A common stock, \$.0001 par value:		
Authorized shares — 800,000,000		
Issued and outstanding shares —		
297,874,346 in 2005 and 273,112,763 in 2004	30	27
Class B common stock, \$.0001 par value:		
Authorized shares — 400,000,000		
Issued and outstanding shares —		
51,672,950 in 2005 and 57,395,782 in 2004	5	6
Additional paid-in capital	9,243,062	8,741,045
Notes receivable from employees	(4,743)	(7,955)
Deferred compensation	(178,217)	(40,701)
Accumulated deficit	(5,915,806)	(6,327,535)
Accumulated other comprehensive income	1,108	1,099
Total shareholders' equity	3,145,439	2,365,986
Total liabilities and shareholders' equity	<u>\$ 3,752,199</u>	<u>\$ 2,885,839</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 31,		
	2005	2004	2003
Net revenue	\$2,670,788	\$2,400,610	\$1,610,095
Cost of revenue ⁽¹⁾	1,263,477	1,191,927	821,794
Cost of revenue — stock-based compensation	1,746	1,367	17,982
Gross profit	1,405,565	1,207,316	770,319
Operating expense:			
Research and development ⁽¹⁾	610,059	495,075	434,018
Research and development — stock-based compensation	40,569	58,611	219,337
Selling, general and administrative ⁽¹⁾	244,926	212,727	190,138
Selling, general and administrative — stock-based compensation ...	17,689	14,709	44,623
Amortization of purchased intangible assets	4,033	3,703	3,504
Settlement costs	110,000	68,700	194,509
In-process research and development	43,452	63,766	—
Impairment of goodwill and other intangible assets	500	18,000	439,611
Restructuring costs (reversal)	(2,500)	—	2,932
Stock option exchange	—	—	209,266
Income (loss) from operations	336,837	272,025	(967,619)
Interest income, net	51,207	15,010	6,828
Other income, net	3,465	7,317	26,053
Income (loss) before income taxes	391,509	294,352	(934,738)
Provision (benefit) for income taxes	(20,220)	75,607	25,127
Net income (loss)	<u>\$ 411,729</u>	<u>\$ 218,745</u>	<u>\$ (959,865)</u>
Net income (loss) per share (basic)	<u>\$ 1.21</u>	<u>\$.68</u>	<u>\$ (3.29)</u>
Net income (loss) per share (diluted)	<u>\$ 1.10</u>	<u>\$.63</u>	<u>\$ (3.29)</u>
Weighted average shares (basic)	<u>338,978</u>	<u>319,442</u>	<u>292,009</u>
Weighted average shares (diluted)	<u>373,964</u>	<u>349,037</u>	<u>292,009</u>

(1) Excludes stock-based compensation expense, which is presented separately by respective expense category. Stock-based compensation expense includes the impact of restricted stock units and certain other equity compensation instruments issued by the Company, as well as stock options and restricted stock assumed in acquisitions and the effects of the stock option exchange program in 2003.

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (In thousands)

	Common Stock		Additional Paid-In Capital		Notes Receivable From Employees	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount							
Balance at December 31, 2002.....	277,804	\$28	\$7,698,399		\$(12,847)	\$(454,890)	\$ (5,586,415)	\$ 246	\$1,644,521
Acquisitions, net	2,565	—	17,837		—	—	—	—	17,837
Shares issued pursuant to stock awards, net	14,866	2	182,716		—	—	—	—	182,718
Employee stock purchase plan	2,213	—	24,777		—	—	—	—	24,777
Repayment of notes receivable	—	—	—	1,941	—	—	—	—	1,941
Deferred compensation, net	—	—	30,363	—	—	(30,363)	—	—	—
Stock-based compensation expense	—	—	7,544	—	—	352,003	—	—	359,547
Stock option exchange	8,574	1	162,305	—	—	55,634	—	—	217,940
Components of comprehensive loss:									
Change in net unrealized loss on investments	—	—	—	—	—	—	—	(61)	(61)
Reclassification adjustment for net realized gain included in net loss	—	—	—	—	—	—	—	137	137
Translation adjustments	—	—	—	—	—	—	—	313	313
Net loss	—	—	—	—	—	—	(959,865)	—	(959,865)
Comprehensive loss	—	—	—	—	—	—	—	—	(959,476)
Balance at December 31, 2003.....	306,022	31	8,123,941	(10,906)	—	(77,616)	(6,546,280)	635	1,489,805
Acquisitions, net	7,371	1	244,212	(34)	—	—	—	—	244,179
Shares issued pursuant to stock awards, net	14,570	1	222,314	—	—	—	—	—	222,315
Employee stock purchase plan	2,546	—	31,008	—	—	—	—	—	31,008
Tax benefit realized from stock plans	—	—	81,798	—	—	—	—	—	81,798
Repayment of notes receivable	—	—	—	2,985	—	—	—	—	2,985
Deferred compensation, net	—	—	37,053	—	—	(37,053)	—	—	—
Stock-based compensation expense	—	—	719	—	—	73,968	—	—	74,687
Components of comprehensive income:									
Change in net unrealized loss on investments	—	—	—	—	—	—	—	(3)	(3)
Translation adjustments	—	—	—	—	—	—	—	467	467
Net income	—	—	—	—	—	—	218,745	—	218,745
Comprehensive income	—	—	—	—	—	—	—	—	219,209
Balance at December 31, 2004.....	330,509	33	8,741,045	(7,955)	—	(40,701)	(6,327,535)	1,099	2,365,986
Acquisitions, net	28	—	172	—	—	—	—	—	172
Shares issued pursuant to stock awards, net	20,924	2	417,633	—	—	—	—	—	417,635
Employee stock purchase plan	1,742	—	40,444	—	—	—	—	—	40,444
Repurchases of Class A common stock	(3,656)	—	(153,752)	—	—	—	—	—	(153,752)
Repayment of notes receivable	—	—	—	3,212	—	—	—	—	3,212
Deferred compensation, net	—	—	195,833	—	—	(195,833)	—	—	—
Stock-based compensation expense	—	—	1,687	—	—	58,317	—	—	60,004
Components of comprehensive income:									
Reclassification adjustment for net realized gain included in net income	—	—	—	—	—	—	—	1	1
Translation adjustments	—	—	—	—	—	—	—	8	8
Net income	—	—	—	—	—	—	411,729	—	411,729
Comprehensive income	—	—	—	—	—	—	—	—	411,738
Balance at December 31, 2005.....	349,547	\$35	\$9,243,062	\$ (4,743)	—	\$(178,217)	\$(5,915,806)	\$1,108	\$3,145,439

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2005	2004	2003
Operating activities			
Net income (loss)	\$ 411,729	\$218,745	\$(959,865)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	53,413	75,166	70,237
Stock-based compensation expense:			
Restricted stock units issued by the Company	35,195	2,790	—
Stock options and restricted stock assumed in acquisitions and certain other equity compensation instruments issued by the Company . . .	24,809	71,897	270,488
Additional acquisition-related items:			
Amortization of purchased intangible assets	15,114	16,524	20,711
In-process research and development	43,452	63,766	—
Impairment of goodwill and intangible assets	500	18,000	439,611
Gain on strategic investments, net	(1,163)	(5,231)	(22,041)
Tax benefit realized from stock plans	—	81,798	—
Non-cash stock option exchange expense	—	—	217,940
Non-cash settlement costs	—	—	88,087
Non-cash restructuring charges	—	—	972
Non-cash development revenue	—	—	(508)
Change in operating assets and liabilities:			
Accounts receivable	(101,412)	23,631	(91,019)
Inventory	(65,234)	(22,310)	(57,554)
Prepaid expenses and other assets	(27,456)	(22,080)	(27,786)
Accounts payable	109,125	(57,186)	50,828
Accrued settlement liabilities	(10,653)	1,933	14,767
Other accrued liabilities	(40,711)	34,395	15,771
Net cash provided by operating activities	446,708	501,838	30,639
Investing activities			
Purchases of property and equipment, net	(41,767)	(49,931)	(47,932)
Net cash paid for acquisitions	(111,454)	(74,846)	(5,862)
Purchases of strategic investments	(467)	(3,216)	(2,500)
Proceeds from sales of strategic investments	1,893	5,231	29,152
Purchases of marketable securities	(596,086)	(525,949)	(69,637)
Proceeds from maturities of marketable securities	574,800	144,546	139,288
Proceeds from sale of available for sale marketable securities	—	48,145	—
Net cash provided by (used in) investing activities	(173,081)	(456,020)	42,509
Financing activities			
Payments on assumed debt and other obligations	(2,482)	(2,203)	(113,470)
Net proceeds from issuance of common stock	458,079	253,323	207,495
Repurchases of Class A common stock	(153,752)	—	—
Repayment of notes receivable by employees	3,212	2,985	1,941
Net cash provided by financing activities	305,057	254,105	95,966
Increase in cash and cash equivalents	578,684	299,923	169,114
Cash and cash equivalents at beginning of year	858,592	558,669	389,555
Cash and cash equivalents at end of year	<u>\$1,437,276</u>	<u>\$858,592</u>	<u>\$ 558,669</u>
Supplemental disclosure of cash flow information			
Interest paid	<u>\$ 33</u>	<u>\$ 57</u>	<u>\$ 1,019</u>
Income taxes paid	<u>\$ 3,807</u>	<u>\$ 5,234</u>	<u>\$ 8,355</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

1. Summary of Significant Accounting Policies

The Company

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

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses in the reporting period. The Company regularly evaluates estimates and assumptions related to allowances for doubtful accounts, sales returns and allowances, warranty reserves, inventory reserves, stock-based compensation expense, goodwill and purchased intangible asset valuations, strategic investments, deferred income tax asset valuation allowances, tax contingencies, restructuring costs, litigation and other loss contingencies. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Revenue Recognition

The Company’s net revenue is generated principally by sales of its semiconductor products. Such sales represented approximately 99.1%, 99.0% and 98.5% of its total net revenue in 2005, 2004 and 2003, respectively. The Company derives the remaining balance of its net revenue predominantly from software licenses, development agreements, support and maintenance agreements and cancellation fees.

The majority of the Company’s sales occur through the efforts of its direct sales force. The Company derived approximately 15.6%, 9.6% and 7.1% of its total net revenue from sales made through distributors in 2005, 2004 and 2003, respectively.

In accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) No. 101, *Revenue Recognition in Financial Statements* (“SAB 101”) and SAB No. 104, *Revenue Recognition* (“SAB 104”), the Company recognizes product revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment. However, the Company does not recognize

revenue until all customer acceptance requirements have been met, when applicable. A portion of the Company's sales are made through distributors under agreements allowing for pricing credits and/or rights of return. Product revenue on sales made through these distributors is not recognized until the distributors ship the product to their customers. The Company records reductions to revenue for estimated product returns and pricing adjustments, such as competitive pricing programs and rebates, in the same period that the related revenue is recorded. The amount of these reductions is based on historical sales returns, analysis of credit memo data, specific criteria included in rebate agreements, and other factors known at the time.

Revenue under development agreements is recognized when applicable contractual milestones have been met, including deliverables, and in any case, does not exceed the amount that would be recognized using the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position ("SOP") 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. The costs associated with development agreements are included in cost of revenue. Revenue from software licenses and maintenance agreements is recognized in accordance with the provisions of SOP 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*. Revenue from cancellation fees is recognized when cash is received from the customer.

Allowance for Doubtful Accounts

The Company evaluates the collectibility of accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will record an allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes allowances for doubtful accounts based on the length of time the receivables are past due, industry and geographic concentrations, the current business environment and the Company's historical experience.

Concentration of Credit Risk

The Company sells the majority of its products throughout North America, Asia and Europe. Sales to the Company's recurring customers are generally made on open account while sales to occasional customers are typically made on a prepaid or letter of credit basis. The Company performs periodic credit evaluations of its recurring customers and generally does not require collateral. Reserves are maintained for potential credit losses, and such losses historically have not been significant and have been within management's expectations.

The Company invests its cash in deposits and money market funds with major financial institutions, in U.S. Treasury and agency obligations, and in debt securities of corporations with strong credit ratings and in a variety of industries. It is the Company's policy to invest in instruments that have a final maturity of no longer than three years, with a portfolio weighted average maturity of no longer than 18 months.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash and cash equivalents, short-term and long-term marketable securities, accounts receivable, accounts payable and borrowings. The Company believes all of the financial instruments' recorded values approximate current values because of their nature and respective durations. The fair value of marketable securities is determined using quoted market prices for those securities or similar financial instruments.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of 90 days or less.

Marketable Securities

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

Investments

The Company accounts for its investments in debt and equity securities under Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. The investments are adjusted for amortization of premiums and discounts to maturity and such amortization is included in interest income. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in the statements of operations.

The Company also has made strategic investments in publicly traded and privately held companies for the promotion of business and strategic objectives. The Company's investments in publicly traded equity securities are classified as available-for-sale. Available-for-sale investments are initially recorded at cost and periodically adjusted to fair value through comprehensive income. The Company's investments in equity securities of non-publicly traded companies are accounted for under the cost method. Under the cost method, strategic investments in which the Company holds less than a 20% voting interest and on which the Company does not have the ability to exercise significant influence are carried at the lower of cost or fair value. Both types of investments are included in other assets on the Company's balance sheet and are carried at fair value or cost, as appropriate. The Company periodically reviews these investments for other-than-temporary declines in fair value based on the specific identification method and writes down investments to their fair values when an other-than-temporary decline has occurred.

Inventory

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

Property and Equipment

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

Goodwill and Purchased Intangible Assets

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

determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill.

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

Income Taxes

The Company utilizes the liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. The Company also determines its tax contingencies in accordance with SFAS No. 5, *Accounting for Contingencies* ("SFAS 5"). The Company records estimated tax liabilities to the extent the contingencies are probable and can be reasonably estimated.

Stock-Based Compensation

The Company has in effect stock incentive plans under which incentive stock options have been granted to employees and restricted stock units and non-qualified stock options have been granted to employees and non-employee members of the Board of Directors. The Company also has an employee stock purchase plan for all eligible employees. The Company accounts for stock-based awards to employees in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations, and has adopted the disclosure-only alternative of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123") and SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*.

In accordance with APB 25, for the year ended December 31, 2005 and prior years, stock-based compensation expense is not recorded in connection with stock options granted with exercise prices equal to or greater than the fair market value of the Company's Class A common stock on the date of grant, unless certain modifications are subsequently made. The Company records deferred compensation in connection with stock options granted, as well as stock options assumed in acquisitions, with exercise prices less than the fair market value of the Class A common stock on the date of grant or assumption. The amount of such deferred compensation per share is equal to the excess of fair market value over the exercise price on such date. The Company records deferred compensation in connection with restricted stock units equal to the fair market value of the Class A common stock on the date of grant. Recorded deferred compensation is recognized as stock-based compensation expense ratably over the applicable vesting periods.

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

	Years Ended December 31,		
	2005	2004	2003
	(In thousands, except per share data)		
Net income (loss) — as reported	\$ 411,729	\$ 218,745	\$ (959,865)
Add: Stock-based compensation expense included in net income (loss) — as reported	60,004	74,687	577,487
Deduct: Stock-based compensation expense determined under the fair value method	(452,257)	(676,864)	(1,025,896)
Net income (loss) — pro forma	<u>\$ 19,476</u>	<u>\$(383,432)</u>	<u>\$(1,408,274)</u>
Net income (loss) per share (basic) — as reported	<u>\$ 1.21</u>	<u>\$.68</u>	<u>\$ (3.29)</u>
Net income (loss) per share (diluted) — as reported	<u>\$ 1.10</u>	<u>\$.63</u>	<u>\$ (3.29)</u>
Net income (loss) per share (basic) — pro forma	<u>\$ 0.06</u>	<u>\$ (1.20)</u>	<u>\$ (4.82)</u>
Net income (loss) per share (diluted) — pro forma	<u>\$ 0.05</u>	<u>\$ (1.20)</u>	<u>\$ (4.82)</u>

The per share fair values of stock options granted in connection with stock incentive plans and rights granted in connection with the employee stock purchase plan have been estimated with the following weighted average assumptions:

	Employee Stock Options			Employee Stock Purchase Rights		
	2005	2004	2003	2005	2004	2003
Expected life (in years)	3.20	4.73	4.00	1.28	1.59	1.28
Volatility	0.40	0.64	0.70	0.38	0.64	0.70
Risk-free interest rate	4.00%	3.40%	2.74%	3.91%	2.40%	1.57%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Weighted average fair value	\$10.97	\$19.19	\$16.88	\$7.23	\$7.36	\$5.90

In addition, the weighted average fair values of the restricted stock units awarded in 2005 and 2004 were approximately \$34.63 and \$28.20 per share, respectively, calculated based on the fair market value per share on the respective grant dates.

The Company evaluates the assumptions used to value stock awards under SFAS 123 on a quarterly basis. Based on guidance provided in SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), and SAB No. 107, *Share-Based Payment*, in the year ended December 31, 2005 the Company refined its expected life assumption based on historical information and changed its volatility assumption based on implied volatility. The Company believes that its current assumptions generate a more representative estimate of fair value.

For purposes of the foregoing pro forma illustration, the fair value of each stock award has been estimated as of the date of grant or assumption using the Black-Scholes model, which was developed for use in estimating the value of traded options that have no vesting restrictions and that are freely transferable. The Black-Scholes model considers, among other factors, the expected life of the option and the expected volatility of the Company's stock price. The Black-Scholes model meets the requirements of SFAS 123R but the fair values generated by the model may not be indicative of the actual fair values of the Company's stock-based awards, as it does not consider other factors important to stock-based awards, such as continued employment and periodic vesting requirements and limited transferability. For pro forma illustration purposes, the Black-Scholes value of the Company's stock-based awards is assumed to be amortized on a straight-line basis over their respective vesting periods.

In addition to APB 25 and the disclosure-only alternative of SFAS 123, the Company complied with the provisions of FASB Interpretation ("FIN") No. 44, *Accounting for Certain Transactions Involving Stock Compensation — An Interpretation of APB Opinion No. 25* ("FIN 44"). FIN 44 clarifies the definition of an employee for purposes of applying APB 25, the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. The rules require that the intrinsic value of the restricted stock and unvested options be allocated to deferred compensation and recognized as stock-based compensation expense ratably over the remaining future vesting period. In the event that a holder does not fully vest in the restricted stock or unvested options, the unamortized portion of deferred compensation is eliminated.

In addition, the Company has complied with the provisions of FIN No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans* ("FIN 28"), which requires use of the variable accounting method with respect to certain stock options assumed in connection with acquisitions in which contingent consideration was paid. Stock-based compensation expense with respect to such options was based on the amount by which the Class A common stock closing price at the end of each quarterly reporting period, or at the date of exercise, if earlier, exceeds the exercise price.

In December 2004 the FASB issued SFAS 123R, which is a revision of SFAS 123. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant date fair values and does not allow the previously permitted pro forma disclosure-only method as an alternative to financial statement recognition. SFAS 123R supersedes APB 25, and related interpretations and amends SFAS No. 95, *Statement of Cash Flows*. Effective January 1, 2006 the Company adopted SFAS 123R. The Company plans to use the modified-prospective method of recognition of compensation expense related to share-based payments.

The adoption of the SFAS 123R fair value method will have a significant adverse impact on the Company's reported results of operations, although it will have no impact on its overall financial position. The balance of unearned stock-based compensation to be expensed in the period 2006 through 2009 related to share-based awards unvested at December 31, 2005, as previously calculated under the disclosure-only requirements of SFAS 123, is approximately \$710.0 million. The weighted-average period over which the unearned stock-based compensation is expected to be recognized is approximately two years. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. To the extent that the Company grants additional equity securities to employees or assumes unvested securities in connection with any acquisitions, stock-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants or acquisitions. The Company anticipates it will grant additional employee stock options and restricted stock units in the second quarter of 2006 as part of its regular annual equity compensation focal review program. The fair value of these grants is not included in the amount above, as the impact of these grants cannot be predicted at this time because it will depend on the number of share-based payments granted as part of the focal review program and the then current fair values.

Had the Company adopted SFAS 123R in prior periods, the magnitude of the impact of that standard on the Company's results of operations would have approximated the impact of SFAS 123 assuming the application of the Black-Scholes option pricing model as illustrated in the pro forma table above. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement may reduce net operating cash flows and increase net financing cash flows in periods after its adoption. While the Company cannot estimate what those amounts will be in the future, the amount of operating cash flows recognized in 2004 related to such excess tax deductions was \$81.8 million. No comparable amounts were recorded in 2005 or 2003.

Contingent Consideration

The aggregate consideration for certain of the Company's acquisitions increased when certain future internal performance goals were later satisfied. Such additional consideration was paid in the form of additional shares of

the Company's Class A common stock, which were reserved for that purpose. Any additional consideration paid was allocated between goodwill, stock-based compensation expense and deferred compensation. The measurement, recognition and allocation of contingent consideration are accounted for using the following principles:

Measurement and Recognition

In accordance with SFAS No. 141, *Business Combinations* ("SFAS 141"), contingent consideration is recorded when a contingency is satisfied and additional consideration is issued or becomes issuable. The Company records the additional consideration issued or issuable in connection with the relevant acquisition when a specified internal performance goal is met. For additional consideration paid in stock, the Company calculates the amount of additional consideration using the closing price of its Class A common stock on the date the performance goal is satisfied.

Amount Allocated to Goodwill

In accordance with FASB Emerging Issues Task Force ("EITF") Issue No. 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination* ("EITF 95-8") and FIN 44, the portion of additional consideration issuable to holders of unrestricted common stock and fully vested options as of the acquisition date is recorded as additional purchase price, as the consideration is unrelated to continuing employment with the Company. Such portion is allocated to goodwill.

Amount Allocated to Stock-Based Compensation Expense

In accordance with EITF 95-8, the intrinsic value associated with additional consideration related to stock or options that vest between the acquisition date and the date at which the contingency is satisfied is recorded as an immediate charge to stock-based compensation expense because the consideration is related to continuing employment with the Company.

Amount Allocated to Deferred Compensation

Additional consideration related to options and restricted stock that remain unvested when the contingency is satisfied is recorded as deferred compensation expense under EITF 95-8 and FIN 44, as such consideration will only be earned to the extent that the holder of such options or restricted stock continues to be employed by the Company and meets the vesting requirements. The amount recorded as deferred compensation is based upon the intrinsic value of the restricted stock and unvested options at the date at which the contingency is satisfied. The Company amortizes such deferred compensation to stock-based compensation expense over the remaining vesting periods of the underlying restricted stock and unvested options. In the event that a holder does not fully vest in the restricted stock or unvested options, the unamortized portion of deferred compensation is eliminated.

Litigation and Settlement Costs

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

Net Income (Loss) Per Share

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

Research and Development Expense

Research and development expenditures are expensed in the period incurred.

Advertising Expense

Advertising costs are expensed in the period incurred.

Rebates

The Company accounts for rebates in accordance with EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, and, accordingly, records reductions to revenue for rebates in the same period that the related revenue is recorded. The amount of these reductions is based upon the terms included in the Company's various rebate agreements.

Warranty

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

Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. Accumulated other comprehensive income includes foreign currency translation adjustments and unrealized gains or losses on investments.

Business Enterprise Segments

The Company operates in one reportable operating segment, wired and wireless broadband communications. SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131"), establishes standards for the way public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. Although the Company had four operating segments at December 31, 2005, under the aggregation criteria set forth in SFAS 131 the Company operates in only one reportable operating segment, wired and wireless broadband communications.

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

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

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

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

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

Because the Company meets each of the criteria set forth in SFAS 131 and its four operating segments as of December 31, 2005 share similar economic characteristics, the Company aggregates its results of operations into one reportable operating segment.

Reclassifications

Certain amounts in the 2004 and 2003 consolidated financial statements have been reclassified to conform with the current year presentation.

2. Supplemental Financial Information

Inventory

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

	December 31,	
	2005	2004
	(In thousands)	
Work in process	\$ 86,445	\$ 38,659
Finished goods	108,126	89,635
	<u>\$194,571</u>	<u>\$128,294</u>

Property and Equipment

The following table presents details of the Company's property and equipment:

	Useful Life (In years)	December 31,	
		2005	2004
		(In thousands)	
Leasehold improvements	1 to 7	\$ 54,005	\$ 48,556
Office furniture and equipment	3 to 7	22,387	28,351
Machinery and equipment	3 to 5	142,218	128,187
Computer software and equipment	2 to 4	85,970	142,620
Construction in progress	N/A	<u>4,552</u>	<u>9,436</u>
		309,132	357,150
Less accumulated depreciation and amortization		<u>(212,694)</u>	<u>(249,990)</u>
		<u>\$ 96,438</u>	<u>\$ 107,160</u>

Goodwill

The following table presents the changes in the carrying value of the Company's goodwill:

	Years Ended December 31,		
	2005	2004	2003
	(In thousands)		
Beginning balance	\$1,062,188	\$ 827,652	\$1,228,603
Goodwill recorded in connection with acquisitions (Note 3)	90,311	239,351	—
Goodwill recorded in connection with contingent consideration earned (Note 3)	—	—	51,315
Impairment losses (Note 9)	—	—	(438,611)
Escrow related and other	(2,897)	(4,815)	(13,655)
Ending balance	<u>\$1,149,602</u>	<u>\$1,062,188</u>	<u>\$ 827,652</u>

Purchased Intangible Assets

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

	December 31, 2005			December 31, 2004		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(In thousands)					
Completed technology ...	\$156,099	\$(150,676)	\$5,423	\$152,230	\$(140,066)	\$12,164
Customer relationships ...	46,266	(45,228)	1,038	46,266	(41,997)	4,269
Customer backlog	3,316	(3,316)	—	2,845	(2,845)	—
Other	7,214	(6,343)	871	6,182	(5,541)	641
	<u>\$212,895</u>	<u>\$(205,563)</u>	<u>\$7,332</u>	<u>\$207,523</u>	<u>\$(190,449)</u>	<u>\$17,074</u>

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

	Years Ended December 31,	
	2005	2004
	(In thousands)	
Cost of revenue	\$11,081	\$12,821
Operating expense	4,033	3,703
	<u>\$15,114</u>	<u>\$16,524</u>

The following table presents details of the unamortized balance of purchased intangible assets that will be amortized to future cost of revenue and operating expense:

	Net Purchased Intangible Assets at December 31,		
	2005	Amortizable in	
		2006	2007
	(In thousands)		
Cost of revenue	\$5,423	\$4,940	\$483
Operating expense	1,909	1,735	174
	<u>\$7,332</u>	<u>\$6,675</u>	<u>\$657</u>

Should the Company acquire purchased intangible assets in the future, its cost of revenue and/or other operating expenses will be increased by the amortization of those assets.

Other Assets

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

	December 31,	
	2005	2004
	(In thousands)	
Strategic investments (Note 4)	\$ 4,968	\$ 5,229
Employee notes and interest receivable	272	996
Other	14,868	15,832
	<u>\$20,108</u>	<u>\$22,057</u>

Accrued Liabilities

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

	December 31,	
	2005	2004
	(In thousands)	
Accrued rebates	\$ 99,645	\$ 93,222
Accrued taxes	68,318	94,382
Warranty reserve	14,131	19,185
Restructuring liabilities	8,083	10,364
Accrued settlement liabilities	2,047	10,700
Other	41,439	51,654
	<u>\$233,663</u>	<u>\$279,507</u>

Long-Term Liabilities

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

	December 31,	
	2005	2004
	(In thousands)	
Restructuring liabilities	\$ 8,138	\$16,753
Accrued settlement liabilities	4,000	6,000
	<u>\$12,138</u>	<u>\$22,753</u>

Accrued Rebate Activity

The following table summarizes the 2005 and 2004 activity related to accrued rebates:

	Years Ended December 31,	
	2005	2004
	(In thousands)	
Beginning balance	\$ 93,222	\$ 62,282
Charged as a reduction to revenue	220,757	263,634
Payments	(214,334)	(232,694)
Ending balance	<u>\$ 99,645</u>	<u>\$ 93,222</u>

Warranty Reserve Activity

The following table summarizes the 2005 and 2004 activity related to the warranty reserve:

	Years Ended December 31,	
	2005	2004
	(In thousands)	
Beginning balance	\$ 19,185	\$ 5,996
Charged to costs and expenses	5,621	14,812
Acquired through acquisition	55	157
Payments	(10,730)	(1,780)
Ending balance	<u>\$ 14,131</u>	<u>\$19,185</u>

Advertising Expense

Advertising expense in 2005, 2004 and 2003 was \$0.5 million, \$5.3 million and \$3.2 million, respectively.

Interest Expense

Interest expense in 2005, 2004 and 2003 was \$0.1 million, \$0.1 million and \$1.1 million, respectively.

Other Income, Net

The following table presents details of the Company's other income, net:

	Years Ended December 31,		
	2005	2004	2003
	(In thousands)		
Net gain on strategic investments (Note 4)	\$1,163	\$5,231	\$22,041
Other	<u>2,302</u>	<u>2,086</u>	<u>4,012</u>
	<u>\$3,465</u>	<u>\$7,317</u>	<u>\$26,053</u>

Computation of Net Income (Loss) Per Share

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

	Years Ended December 31,		
	2005	2004	2003
	(In thousands, except per share data)		
Numerator: Net income (loss)	<u>\$411,729</u>	<u>\$218,745</u>	<u>\$(959,865)</u>
Denominator: Weighted average shares outstanding	339,370	319,778	292,881
Less: Unvested common shares outstanding	<u>(392)</u>	<u>(336)</u>	<u>(872)</u>
Denominator for net income (loss) per share (basic)	338,978	319,442	292,009
Effect of dilutive securities:			
Unvested common shares outstanding	380	318	—
Stock options, restricted stock units and certain other equity compensation instruments	<u>34,606</u>	<u>29,277</u>	<u>—</u>
Denominator for net income (loss) per share (diluted)	<u>373,964</u>	<u>349,037</u>	<u>292,009</u>
Net income (loss) per share (basic)	<u>\$ 1.21</u>	<u>\$.68</u>	<u>\$(3.29)</u>
Net income (loss) per share (diluted)	<u>\$ 1.10</u>	<u>\$.63</u>	<u>\$(3.29)</u>

If the Company had reported net income in 2003, additional common share equivalents of approximately 19.7 million would have been included in the denominator for net income (loss) per share (diluted) noted in the table above. These common share equivalents, calculated using the treasury stock method, have been excluded from the diluted net loss per share calculation because such equivalents were antidilutive. Contingent equity consideration paid by the Company in connection with certain acquisitions is included, as appropriate, in the calculation of basic and diluted net income (loss) per share as of the beginning of the period in which the respective equity consideration is earned.

Supplemental Cash Flow Information

In 2004 the Company entered into a non-cash transaction for the trade-in of equipment, as partial consideration for equipment acquired through an operating lease, in the amount of \$10.7 million, which was excluded from the statements of cash flows.

3. Business Combinations

From January 1, 2003 through December 31, 2005 the Company completed 11 acquisitions. The consolidated financial statements include the results of operations of these acquired companies commencing as of their respective acquisition dates.

A summary of the transactions as of their respective acquisition dates is outlined below:

<u>Company Acquired</u>	<u>Date Acquired</u>	<u>Business</u>	<u>Shares Issued</u>	<u>Shares Reserved for Stock Purchase Rights Assumed</u>	<u>Total Shares Issued or Reserved</u>	<u>Cash Consideration Paid</u>
(In thousands)						
2005 Acquisitions						
Alliant Networks, Inc.	Feb. 2005	WLAN embedded software	—	—	—	\$ 2,313
Zeevo, Inc.	Mar. 2005	Bluetooth® headset chipsets	—	—	—	24,147
Siliquent Technologies, Inc.	Aug. 2005	10 Gigabit Ethernet server controllers	37	161	198	75,533
Athena Semiconductors, Inc.	Nov. 2005	Tuners and low-power Wi-Fi®	—	—	—	21,340
			<u>37</u>	<u>161</u>	<u>198</u>	<u>\$123,333</u>
2004 Acquisitions						
RAIDCore, Inc.	Jan. 2004	Redundant array of inexpensive disks (“RAID”) and virtualization software	—	—	—	\$ 9,886
Sand Video, Inc.	Apr. 2004	Advanced video compression semiconductor technology	1,406	262	1,668	7,365
M-Stream, Inc.	Apr. 2004	Technology for signal-to-noise ratio performance improvements in cellular handsets	—	27	27	7,898
WIDCOMM, Inc.	May 2004	Software solutions for Bluetooth wireless products	—	—	—	48,427
Zyray Wireless Inc.	July 2004	Baseband co-processors addressing UMTS mobile devices	1,894	345	2,239	3,850
Alphamosaic Limited	Sep. 2004	Advanced mobile imaging, multimedia and 3D graphics technology optimized for use in cellular phones and other mobile devices	<u>4,173</u>	<u>141</u>	<u>4,314</u>	<u>2,695</u>
			<u>7,473</u>	<u>775</u>	<u>8,248</u>	<u>\$ 80,121</u>
2003 Acquisition						
Gadzoox Networks, Inc.	Mar. 2003	Storage networking technology	—	—	—	\$ 5,862
Total Acquisitions			<u>7,510</u>	<u>936</u>	<u>8,446</u>	<u>\$209,316</u>

The Company's primary reasons for the above acquisitions were to enter into or expand its market share in the relevant wired and wireless communications markets, reduce the time required to develop new technologies and products and bring them to market, incorporate enhanced functionality into and complement the Company's existing product offerings, augment its engineering workforce, and/or enhance its technological capabilities.

Approximately \$2.3 million of the cash consideration for the Siliquent and Athena acquisitions is expected to be paid in the three months ending March 31, 2006 to certain former stockholders or employees of these companies upon obtaining appropriate documentation from each such stockholder or employee. Certain of the shares issued or cash paid is held in escrow pursuant to the terms of the respective acquisition agreements. Additionally, certain issued shares are subject to the Company's right of repurchase should the shareholder cease employment with the Company prior to the scheduled vesting of those shares.

No supplemental pro forma information is presented for the acquisitions above due to the immaterial effect of those acquisitions on the results of operations.

Allocation of Initial Purchase Consideration

The Company calculated the fair value of the tangible and intangible assets acquired to allocate the purchase prices in accordance with SFAS 141. Based upon those calculations, the purchase price for each of the acquisitions was allocated as follows:

	<u>Net Assets (Liabilities) Assumed</u>	<u>Goodwill and Purchased Intangibles</u>	<u>Deferred Compensation</u> (In thousands)	<u>In-Process Research & Development</u>	<u>Total Consideration</u>
2005 Acquisitions					
Alliant	\$ (474)	\$ 2,787	\$ —	\$ —	\$ 2,313
Zeevo	(6,720)	24,215	—	6,652	24,147
Siliquent	(7,714)	48,419	7,718	35,000	83,423
Athena	(721)	20,261	—	1,800	21,340
	<u>\$ (15,629)</u>	<u>\$ 95,682</u>	<u>\$ 7,718</u>	<u>\$ 43,452</u>	<u>\$ 131,223</u>
2004 Acquisitions					
RAIDCore	\$ (267)	\$ 7,893	\$ —	\$ 2,260	\$ 9,886
Sand Video	(2,067)	43,841	14,760	20,518	77,052
M-Stream	452	4,080	630	3,726	8,888
WIDCOMM	(689)	49,116	—	—	48,427
Zyray	(1,781)	59,516	13,707	25,929	97,371
Alphamosaic	913	101,836	8,705	11,333	122,787
	<u>\$ (3,439)</u>	<u>\$ 266,282</u>	<u>\$ 37,802</u>	<u>\$ 63,766</u>	<u>\$ 364,411</u>
2003 Acquisition					
Gadzoox	<u>\$ 2,521</u>	<u>\$ 3,341</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,862</u>
Total Acquisitions	<u>\$ (16,547)</u>	<u>\$ 365,305</u>	<u>\$ 45,520</u>	<u>\$ 107,218</u>	<u>\$ 501,496</u>

The equity consideration for each acquisition was calculated as follows: (i) common shares issued were valued based upon the Company's stock price for a period commencing two trading days before and ending two trading days after the parties reached agreement and the proposed transaction was announced, and (ii) restricted common stock and employee stock options were valued in accordance with FIN 44.

Accounting for Contingent Consideration

In connection with its acquisitions of ServerWorks Corporation and Mobilink Telecom, Inc., the Company reserved additional shares of its Class A common stock for issuance to the former share and option holders of the acquired companies upon satisfaction of certain future internal performance goals established in the definitive agreements for each of these acquisitions.

The following table presents activity in 2003 in the Company's Class A common stock reserved for issuance upon satisfaction of future internal performance goals related to acquisitions:

	<u>ServerWorks</u>	<u>Mobilink</u> (In thousands)	<u>Shares Reserved for Certain Future Performance Goals</u>
Balance at December 31, 2002	2,000	1,534	3,534
Shares/options earned	(1,984)	(1,501)	(3,485)
Shares/options cancelled	<u>(16)</u>	<u>(33)</u>	<u>(49)</u>
Balance at December 31, 2003	<u> </u>	<u> </u>	<u> </u>

The following table presents the allocation of contingent consideration earned in 2003 in connection with the satisfaction of the internal performance goals detailed in the table above:

	<u>ServerWorks</u>	<u>Mobilink</u> (In thousands)	<u>Total Contingent Consideration</u>
Goodwill	\$27,168	\$24,147	\$ 51,315
Stock-based compensation expense	13,831	2,650	16,481
Deferred compensation, net	<u>30,235</u>	<u>6,677</u>	<u>36,912</u>
	<u>\$71,234</u>	<u>\$33,474</u>	<u>\$104,708</u>

See Note 1 for a detailed explanation of the accounting policy relating to the measurement, recognition and allocation of contingent consideration.

Condensed Balance Sheets

The following table presents the combined details of the unaudited condensed balance sheets of the acquired companies at the respective dates of acquisition:

	<u>2005</u> <u>Acquisitions</u>	<u>2004</u> <u>Acquisitions</u> (In thousands)	<u>2003</u> <u>Acquisition</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 9,606	\$ 5,275	\$ —
Accounts receivable	809	8,642	890
Inventory	1,043	1,937	457
Prepaid expenses and other current assets	<u>1,329</u>	<u>1,698</u>	<u>—</u>
Total current assets	12,787	17,552	1,347
Property and equipment, net	924	944	1,174
Other assets	<u>456</u>	<u>159</u>	<u>—</u>
Total assets	<u>\$14,167</u>	<u>\$18,655</u>	<u>\$2,521</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$ 8,696	\$10,220	\$ —
Wages and related benefits	921	1,140	—
Accrued liabilities	15,891	5,191	—
Short-term debt	<u>2,482</u>	<u>2,203</u>	<u>—</u>
Total current liabilities	27,990	18,754	—
Total shareholders' equity (deficit)	<u>(13,823)</u>	<u>(99)</u>	<u>2,521</u>
Total liabilities and shareholders' equity (deficit)	<u>\$14,167</u>	<u>\$18,655</u>	<u>\$2,521</u>

In connection with acquisitions, the Company incurred acquisition costs of approximately \$1.8 million and \$3.3 million in 2005 and 2004, respectively.

Goodwill and Purchased Intangible Assets

The following table presents the combined details of the total goodwill and purchased intangible assets of the acquired companies at the respective dates of acquisitions:

	<u>Useful Life</u> <u>(In years)</u>	<u>2005</u> <u>Acquisitions</u>	<u>2004</u> <u>Acquisitions</u> (In thousands)	<u>2003</u> <u>Acquisition</u>
Goodwill	N/A	\$90,311	\$239,351	\$ —
Purchased intangible assets (finite lives):				
Completed technology	2 to 3	3,869	18,318	2,441
Customer relationships	2	—	6,345	—
Customer contracts	1 to 2	—	725	—
Other	< 1	<u>1,502</u>	<u>1,543</u>	<u>900</u>
		<u>\$95,682</u>	<u>\$266,282</u>	<u>\$3,341</u>

In-Process Research and Development

In-process research and development (“IPR&D”) totaled \$43.5 million and \$63.8 million for acquisitions completed in 2005 and 2004, respectively. No comparable amount of IPR&D was recorded in 2003. The amounts allocated to IPR&D were determined through established valuation techniques used in the high technology industry and were expensed upon acquisition as it was determined that the underlying projects had not reached technological feasibility and no alternative future uses existed. In accordance with SFAS No. 2, *Accounting for Research and Development Costs*, as clarified by FIN No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, an Interpretation of FASB Statement No. 2*, amounts assigned to IPR&D meeting the above-stated criteria were charged to expense as part of the allocation of the purchase price.

The fair value of the IPR&D for each of the acquisitions was determined using the income approach. Under the income approach, the expected future cash flows from each project under development are estimated and discounted to their net present values at an appropriate risk-adjusted rate of return. Significant factors considered in the calculation of the rate of return are the weighted-average cost of capital and return on assets, as well as the risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. Each project was analyzed to determine the unique technological innovations, the existence and reliance on core technology, the existence of any alternative future use or current technological feasibility, and the complexity, cost and time to complete the remaining development. Future cash flows for each project were estimated based on forecasted revenue and costs, taking into account product life cycles, and market penetration and growth rates.

The IPR&D charge includes only the fair value of IPR&D performed as of the respective acquisition dates. The fair value of developed technology is included in identifiable purchased intangible assets. The Company believes the amounts recorded as IPR&D, as well as developed technology, represent the fair values and approximate the amounts an independent party would pay for these projects at the time of the respective acquisition dates.

The following table summarizes the significant assumptions underlying the valuations of IPR&D at the acquisition dates for the Company’s acquisitions completed in 2005 and 2004:

<u>Company Acquired</u>	<u>Development Projects</u>	<u>Weighted Average Estimated Percent Complete</u>	<u>Average Estimated Time to Complete (In years)</u>	<u>Estimated Cost to Complete (In millions)</u>	<u>Risk Adjusted Discount Rate</u>	<u>IPR&D (In millions)</u>
2005 Acquisitions						
Zeevo	Bluetooth wireless audio chipset	85%	1.0	\$ 5.5	22%	\$ 6.7
Siligent	10 GbE server controller	40	1.0	17.3	27	35.0
Athena	Tuners and low-power Wi-Fi chips	85	0.5	0.9	27	1.8
2004 Acquisitions						
RAIDCore	RAID software stack	60	1.0	1.8	23	2.3
Sand Video	Decoder/codec chips	45	1.5	6.4	28	20.5
M-Stream	Algorithm implemented in DSP chip	30	1.0	1.3	26	3.7
Zyray	UMTS baseband co-processor	80	1.0	5.6	24	25.9
Alphamosaic	Multimedia co-processor	50	1.0	11.5	21	11.3

The Company completed the development projects related to all of the Company’s 2004 acquisitions, except for Sand Video. In the case of Sand Video, the Company reallocated the resources to focus on semiconductor

products that the Company believes are a higher priority. The Company also completed the development project related to the Zeevo acquisition. All other 2005 development projects are still in process.

Except for the Sand Video project, actual results to date have been consistent, in all material respects, with the Company's assumptions at the time of the acquisitions. The assumptions consist primarily of expected completion dates for the IPR&D projects, estimated costs to complete the projects, and revenue and expense projections for the products once they have entered the market.

As of the respective acquisition dates of the 2004 and 2005 acquisitions, certain ongoing development projects were in process. Research and development costs to bring the products of the acquired companies to technological feasibility are not expected to have a material impact on the Company's results of operations or financial condition.

Pending Acquisition

In January 2006 the Company announced that it had signed a definitive agreement to acquire Sandburst Corporation, a privately-held fabless semiconductor company specializing in the design and development of scalable packet switching and routing systems-on-a-chip (SoCs) that are deployed in enterprise core and metropolitan Ethernet networks. The Company expects to pay total consideration of approximately \$80 million in connection with the acquisition. Of such consideration, \$75 million will be paid in cash upon closing of the acquisition in exchange for all outstanding shares of capital stock and vested stock options of Sandburst. A portion of the cash consideration will be placed in escrow pursuant to the terms of the acquisition agreement. The Company will also assume all unvested employee stock options of Sandburst, which will entitle the holders to receive, upon vesting, up to approximately 100,000 shares of the Company's Class A common stock, having a total value of approximately \$5 million based upon the terms of the acquisition agreement. The closing, which is expected to occur during the first quarter of 2006, remains subject to customary closing conditions. The Company may record a one-time charge for purchased in-process research and development expenses related to the acquisition in its first quarter of 2006. The amount of that charge, if any, has not yet been determined.

4. Investments

Held-to-Maturity Investments

At December 31, 2005 the Company's held-to-maturity investments consisted of U.S. Treasury and agency obligations, commercial paper, corporate notes and bonds, time deposits, foreign notes and certificates of deposit. Securities are classified as held-to-maturity when the Company has the intent and ability to hold the securities to maturity. Held-to-maturity investments are stated at cost, adjusted for amortization of premiums and discounts to maturity. A summary of the Company's held-to-maturity investments by balance sheet caption is as follows:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	<u>(In thousands)</u>			
December 31, 2005				
Cash equivalents.....	\$ 835,598	\$66	\$ (462)	\$ 835,202
Short-term marketable securities	295,402	—	(1,052)	294,350
Long-term marketable securities	142,843	—	(1,491)	141,352
	<u>\$1,273,843</u>	<u>\$66</u>	<u>\$(3,005)</u>	<u>\$1,270,904</u>
December 31, 2004				
Cash equivalents.....	\$ 356,845	\$21	\$ (35)	\$ 356,831
Short-term marketable securities	324,041	17	(656)	323,402
Long-term marketable securities	92,918	19	(582)	92,355
	<u>\$ 773,804</u>	<u>\$57</u>	<u>\$(1,273)</u>	<u>\$ 772,588</u>

Scheduled maturities of held-to-maturity securities were as follows:

	December 31,			
	2005		2004	
	(In thousands)			
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	\$1,131,000	\$1,129,552	\$680,886	\$680,233
One to two years	103,985	102,746	69,717	69,247
Two to three years	38,858	38,606	23,201	23,108
	<u>\$1,273,843</u>	<u>\$1,270,904</u>	<u>\$773,804</u>	<u>\$772,588</u>

Strategic Investments

At December 31, 2005 and 2004 the carrying values of the Company's investments in equity securities of privately held companies accounted for using the cost method were approximately \$5.0 million and \$5.2 million, respectively. In 2005, 2004 and 2003 the Company performed impairment analyses of these investments. The Company recorded impairment charges for these investments in the amount of \$2.3 million in 2003, representing other-than-temporary declines in the value of these non-marketable equity securities. There were no comparable charges incurred in 2005 and 2004. In addition, in 2005 and 2004 the Company recorded net gains on the sale of its investments in publicly traded companies in the amounts of \$1.2 million and \$5.2 million, respectively. These gains were included in other income, net, in the consolidated statements of operations.

In September 2003 the Company received approximately \$28.4 million of proceeds and realized a gain of approximately \$24.4 million on the sale of this investment. The investment was previously written down by \$24.1 million in September 2002, representing an other-than-temporary decline in the value of that investment at that time. These charges and gains were also included in other income, net, in the consolidated statements of operations.

5. Income Taxes

For financial reporting purposes, income (loss) before income taxes includes the following components:

	Years Ended December 31,		
	2005	2004	2003
	(In thousands)		
United States	\$(128,370)	\$ 29,027	\$(1,071,532)
Foreign	519,879	265,325	136,794
	<u>\$ 391,509</u>	<u>\$294,352</u>	<u>\$ (934,738)</u>

A reconciliation of the provision (benefit) for income taxes at the federal statutory rate compared to the Company's effective tax rate follows:

	Years Ended December 31,		
	2005	2004	2003
	(In thousands)		
Statutory federal provision (benefit) for income taxes	\$137,028	\$103,023	\$(327,158)
Increase (decrease) in taxes resulting from:			
Non-deductible impairment of goodwill	—	—	153,514
In-process research and development	15,208	17,499	—
State taxes, net of federal benefit	826	14,047	583
Benefit of federal tax credits	(15,584)	(11,836)	(39,939)
Valuation allowance changes affecting income tax expense	40,418	36,893	262,201
Reversal of taxes previously accrued	(28,300)	(21,300)	—
Tax rate differential on foreign earnings	(174,558)	(65,066)	(23,334)
Other	<u>4,742</u>	<u>2,347</u>	<u>(740)</u>
Provision (benefit) for income taxes	<u>\$ (20,220)</u>	<u>\$ 75,607</u>	<u>\$ 25,127</u>

The income tax provision (benefit) consists of the following components:

	Years Ended December 31,		
	2005	2004	2003
	(In thousands)		
Current:			
Federal	\$(24,999)	\$44,598	\$15,753
State	1,271	21,610	583
Foreign	<u>1,478</u>	<u>9,399</u>	<u>8,791</u>
	(22,250)	75,607	25,127
Deferred:			
Federal	—	—	—
State	—	—	—
Foreign	<u>2,030</u>	<u>—</u>	<u>—</u>
	<u>2,030</u>	<u>—</u>	<u>—</u>
	<u>\$ (20,220)</u>	<u>\$75,607</u>	<u>\$25,127</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes were as follows:

	December 31,	
	2005	2004
	(In thousands)	
Deferred tax assets:		
Research and development tax credit carryforwards	\$ 353,913	\$ 332,031
Capitalized research and development costs	116,561	113,341
Net operating loss carryforwards	1,217,304	1,010,151
Reserves and accruals not currently deductible for tax purposes	26,523	30,837
Deferred compensation and purchased intangible assets	40,601	141,328
Other	32,123	31,682
Gross deferred tax assets	1,787,025	1,659,370
Valuation allowance	(1,785,675)	(1,659,370)
Deferred tax assets, net	1,350	—
Deferred tax liabilities	—	—
Net deferred tax assets	\$ 1,350	\$ —

The Company operates under tax holidays in Singapore, which are effective through March 2009. The tax holidays are conditional upon the Company meeting certain employment and investment thresholds. The impact of the Singapore tax holidays decreased Singapore taxes by approximately \$185.3 million, \$147.1 million and \$101.1 million for 2005, 2004 and 2003, respectively. The benefit of the tax holidays on net income (loss) per share (diluted) was approximately \$.50, \$.42 and \$.35 for 2005, 2004 and 2003, respectively.

In accordance with SFAS 109, the Company records net deferred tax assets to the extent the Company believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. SFAS 109 further states that forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of the Company's recent cumulative losses in the U.S. and certain foreign jurisdictions, and the full utilization of its loss carryback opportunities, the Company concluded that a full valuation allowance should be recorded in such jurisdictions. In certain other foreign jurisdictions where the Company does not have cumulative losses, the Company recorded net deferred tax assets of \$1.4 million, of which \$0.8 million resulted from acquisitions during 2005.

If or when recognized, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets at December 31, 2005 will be accounted for as follows: approximately \$1.222 billion will be recognized as a reduction of income tax expense, \$137.6 million will be recognized as a reduction of goodwill, and \$425.7 million will be recognized as an increase in shareholders' equity for certain tax benefits from employee stock options. In 2005 the Company recorded a \$2.6 million increase in foreign deferred tax expense as a result of allocating certain tax benefits directly to goodwill for the utilization of certain foreign net operating losses from acquisitions, which were previously offset with a valuation allowance.

At December 31, 2005 the Company had federal, state, United Kingdom and Israel net operating loss carryforwards of approximately \$3.231 billion, \$1.313 billion, \$35.4 million and \$10.5 million, respectively. If unutilized, the federal and state net operating loss carryforwards expire at various dates through 2025. The United Kingdom and Israel net operating losses have no expiration date.

At December 31, 2005 the Company had federal, state and Canadian research and development credit carryforwards of approximately \$199.5 million, \$224.2 million and \$8.7 million, respectively. These research and

development credit carryforwards expire at various dates through 2025, if not previously utilized. Certain state research and development credit carryforwards have no expiration date.

Due to the change of ownership provisions of the Tax Reform Act of 1986, utilization of a portion of the Company's domestic net operating loss and tax credit carryforwards may be limited in future periods. A portion of the carryforwards may expire before becoming available to reduce future income tax liabilities.

Deferred taxes of approximately \$612.0 million have not been provided on the excess of book basis over tax basis in the shares of certain foreign subsidiaries because these basis differences are not expected to reverse in the foreseeable future and are essentially permanent in duration. These basis differences arose primarily through the undistributed book earnings of these foreign subsidiaries that the Company intends to reinvest indefinitely. The basis differences could reverse through a sale of the subsidiaries, the receipt of dividends from the subsidiaries, or various other events. The Company believes U.S. income taxes would be immaterial upon a reversal of this excess book basis due to existence of domestic net operating loss and tax credit carryforwards, and resulting foreign tax credits.

In 2005 the IRS completed its examination of the Company's 1999 and 2000 tax years. The results of this examination did not have a material effect on the Company's financial condition or results of operations.

6. Commitments

The Company leases facilities in Irvine (its corporate headquarters) and Santa Clara County, California. Each of these facilities includes research and development, administration, sales and marketing, and operations functions. In addition to the Company's principal design facilities in Irvine and Santa Clara County, the Company leases additional design facilities in Tempe, Arizona; San Diego County, California; Colorado Springs, Fort Collins, and Longmont, Colorado; Duluth, Georgia; Germantown, Maryland; Andover, Massachusetts; Nashua, New Hampshire; Matawan, New Jersey; Austin, Texas and Seattle, Washington. Internationally, the Company leases a distribution center that includes engineering design and administrative facilities in Singapore as well as engineering design and administrative facilities in Belgium, Canada, China, Denmark, France, Greece, India, Israel, Japan, Korea, the Netherlands, Taiwan and the United Kingdom. In addition, the Company leases various sales and marketing facilities in the United States and several other countries.

The Company leases its facilities and certain engineering design tools and information systems equipment under operating lease agreements that expire at various dates through 2017. In December 2004 the Company entered into a lease agreement under which its corporate headquarters will move from its present location to new, larger facilities in Irvine, California, which will consist of eight buildings with an aggregate of approximately 0.7 million square feet. The lease term is for a period of ten years and two months beginning after the completion of the first two buildings and related tenant improvements, which is anticipated to occur in the first quarter of 2007. The aggregate rent for the term of the lease, approximately \$183.0 million, is included in the table below.

Future minimum payments under noncancelable operating leases and purchase obligations are as follows:

	Payment Obligations by Year						Total
	2006	2007	2008	2009	2010	There-after	
	(In thousands)						
Operating leases	\$ 95,862	\$88,986	\$64,601	\$41,445	\$29,733	\$132,670	\$453,297
Inventory and related purchase obligations	297,468	612	—	—	—	—	298,080
Other purchase obligations	38,303	2,135	—	—	—	—	40,438
Restructuring liabilities	8,083	3,663	1,790	1,790	895	—	16,221
Accrued settlement payments	2,047	2,000	2,000	—	—	—	6,047
Total	<u>\$441,763</u>	<u>\$97,396</u>	<u>\$68,391</u>	<u>\$43,235</u>	<u>\$30,628</u>	<u>\$132,670</u>	<u>\$814,083</u>

Facilities rent expense in 2005, 2004 and 2003 was \$41.7 million, \$38.4 million and \$33.6 million, respectively.

Inventory and related purchase obligations represent purchase commitments for silicon wafers and assembly and test services. The Company depends upon third party subcontractors to manufacture its silicon wafers and provide assembly and test services. Due to lengthy subcontractor lead times, the Company must order these materials and services from subcontractors well in advance. The Company expects to receive and pay for these materials and services within the ensuing six months. Its subcontractor relationships typically allow for the cancellation of outstanding purchase orders, but require payment of all expenses incurred through the date of cancellation.

Other purchase obligations represent purchase commitments for lab test equipment, computer hardware, information systems infrastructure and other purchase commitments made in the ordinary course of business.

The Company's restructuring liabilities represent estimated future lease and operating costs from restructured facilities, less offsetting sublease income, if any. These costs will be paid over the respective lease terms through 2010. These amounts are included in the Company's consolidated balance sheet.

Settlement payments represent payments to be made in connection with certain settlement and license agreements entered into in 2004 and 2005. These amounts are included in the Company's consolidated balance sheet.

For purposes of the table above, obligations for the purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The Company's purchase orders are based on its current manufacturing needs and are typically fulfilled by its vendors within a relatively short time horizon. The Company has additional purchase orders (not included in the table above) that represent authorizations to purchase rather than binding agreements. The Company does not have significant agreements for the purchase of inventories or other goods specifying minimum quantities or set prices that exceed its expected requirements.

7. Shareholders' Equity

Common Stock

The Company has 800,000,000 authorized shares of Class A common stock and 400,000,000 authorized shares of Class B common stock. The shares of Class A common stock and Class B common stock are substantially identical, except that holders of Class A common stock are entitled to one vote for each share held, and holders of Class B common stock are entitled to ten votes for each share held, on all matters submitted to a vote of the shareholders. In addition, holders of Class B common stock are entitled to vote separately on the proposed issuance of additional shares of Class B common stock in certain circumstances. The shares of Class B common stock are not publicly traded. Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock and in most instances automatically converts upon sale or other transfer. The Class A common stock and Class B common stock are sometimes collectively referred to herein as "common stock."

Share Repurchase Program

In February 2005 the Company's Board of Directors authorized a program to repurchase shares of the Company's Class A common stock. The Board approved the repurchase of shares having an aggregate value of up to \$250 million from time to time over a period of one year, depending on market conditions. Through December 31, 2005 the Company repurchased a total of 3.7 million shares at a weighted average price of \$42.05 per share.

Under the program, through January 25, 2006 the Company repurchased a total of approximately 3.7 million shares of its Class A common stock at a weighted average price of \$42.12 per share, for \$156.0 million including transaction costs. On January 25, 2006 the Board of Directors approved an amendment

to the share repurchase program extending the program through January 26, 2007 and authorizing the repurchase of additional shares of the Company's Class A common stock having a total market value of up to \$500 million from time to time during the period beginning January 26, 2006 and ending January 26, 2007.

Stock Split

On January 25, 2006 the Company's Board of Directors approved a three-for-two split of the Company's common stock, which will be effected in the form of a stock dividend. Holders of record of the Company's Class A and Class B common stock as of the close of business on February 6, 2006 ("Record Date") will receive one additional share of Class A or Class B common stock, as applicable, for every two shares of such class held on the Record Date. The additional Class A and Class B shares will be distributed on or about February 21, 2006. Cash will be paid in lieu of fractional shares. Share and per share amounts in the accompanying consolidated financial statements have *not* been restated to reflect this pending stock split.

Registration Statements

The Company has in effect a universal shelf registration statement on SEC Form S-3 and an acquisition shelf registration statement on SEC Form S-4. The universal shelf registration statement on Form S-3 permits the Company to sell, in one or more public offerings, shares of its Class A common stock, shares of preferred stock or debt securities, or any combination of such securities, for proceeds in an aggregate amount of up to \$750 million. The acquisition shelf registration statement on Form S-4 enables the Company to issue up to 30 million shares of its Class A common stock in one or more acquisition transactions. These transactions may include the acquisition of assets, businesses or securities, by any form of business combination. To date no securities have been issued pursuant to either registration statement.

Comprehensive Income (Loss)

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

	Years Ended December 31,		
	2005	2004	2003
		(In thousands)	
Net income (loss)	\$411,729	\$218,745	\$(959,865)
Other comprehensive income (loss):			
Change in unrealized gain on investments, net of taxes	—	(3)	(61)
Reclassification adjustment for net realized loss included in net gain	1	—	137
Translation adjustments	8	467	313
Total comprehensive income (loss)	<u>\$411,738</u>	<u>\$219,209</u>	<u>\$(959,476)</u>

The components of accumulated other comprehensive income are as follows:

	December 31,	
	2005	2004
		(In thousands)
Accumulated unrealized loss on investments	\$ —	\$ (1)
Accumulated translation adjustments	<u>1,108</u>	<u>1,100</u>
Total accumulated other comprehensive income	<u>\$1,108</u>	<u>\$1,099</u>

8. Employee Benefit Plans

Employee Stock Purchase Plan

The Company has an employee stock purchase plan for all eligible employees. Under the plan, employees may purchase shares of the Company's Class A common stock at six-month intervals at 85% of fair market value

(calculated in the manner provided in the plan). Employees purchase such stock using payroll deductions, which may not exceed 15% of their total cash compensation. The plan imposes certain limitations upon an employee's right to acquire Class A common stock, including the following: (i) no employee may purchase more than 6,000 shares of Class A common stock on any one purchase date and (ii) no employee may be granted rights to purchase more than \$25,000 worth of Class A common stock for each calendar year that such rights are at any time outstanding. In 2005, 2004 and 2003, 1.7 million, 2.5 million and 2.2 million shares, respectively, were issued under this plan at average per share prices of \$23.21, \$12.18 and \$11.20, respectively. At December 31, 2005, 3.2 million shares were available for future issuance under this plan.

In May 2003 the shareholders approved an amendment to the employee stock purchase plan to (i) revise the automatic annual share increase provision of the plan so that the increment by which the number of shares of Class A common stock reserved for issuance under the plan is augmented on the first trading day of January in each calendar year, beginning with the year 2004, would equal 1% of the total number of shares of common stock outstanding on the last trading day of the immediately preceding calendar year and (ii) increase the limitation on the automatic annual share increase to three million shares per year.

Stock Incentive Plans

The Company has in effect stock incentive plans under which incentive stock options have been granted to employees and restricted stock units and non-qualified stock options have been granted to employees and non-employee members of the Board of Directors. The Company's 1998 Stock Incentive Plan, as amended and restated (the "1998 Plan"), is the successor equity incentive program to the Company's 1994 Stock Option Plan (the "1994 Plan") and the Company's 1998 Special Stock Option Plan (together, the "Predecessor Plans").

In March 2005, 2004 and 2003, the Board of Directors approved amendments to the 1998 Plan, as previously amended, to increase the number of shares of Class A common stock reserved for issuance under this plan by an additional 10 million, 12 million and 13 million shares, respectively. These amendments were approved by the shareholders at the Annual Meetings of Shareholders held in April 2005, April 2004 and May 2003, respectively. The number of shares of Class A common stock reserved for issuance under the 1998 Plan automatically increases in January each year. The increase is equal to 4.5% of the total number of shares of common stock outstanding on the last trading day of the immediately preceding year, subject to a 25 million annual share limit. As of December 31, 2005, approximately 129.3 million shares of common stock were reserved for issuance under the 1998 Plan, including shares reserved for issuance upon exercise of outstanding options granted under Predecessor Plans.

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

During 2005 the Company granted approximately 5.6 million restricted stock units as part of the Company's regular annual equity compensation review program as well as for new hire grants. Restricted stock units are share awards that entitle the holder to receive freely tradable shares of the Company's Class A common stock upon vesting. Generally, restricted stock units vest ratably on a quarterly basis over 16 quarters from the date of grant. The weighted average fair value of the restricted stock units awarded was approximately \$34.63 per share calculated based on the fair market value per share on the respective grant dates. The Company recorded approximately \$193.8 million of deferred compensation related to the issuance of the restricted stock units. This deferred compensation is being amortized to stock-based compensation expense ratably over the vesting periods of the underlying restricted stock units.

In 1999 the Board of Directors approved the 1999 Special Stock Option Plan (the "1999 Plan") and reserved an aggregate of 1 million shares of Class A common stock for issuance under the 1999 Plan. Employees,

independent consultants and advisors in the service of the Company or any of its subsidiaries who are neither officers of the Company nor members of the Board of Directors at the time of the option grant are eligible to participate in the 1999 Plan. The exercise price of options granted under the 1999 Plan can be less than the fair market value of the underlying common stock on the grant date. In 2003, approximately 0.9 million options were granted under the 1999 Plan to certain employees at a weighted average exercise price per share of \$14.44. In February 2005 the Board of Directors reduced the share reserve under the 1999 Plan to the number of shares needed to cover outstanding options under the plan. Accordingly, no additional stock option grants are to be made under the 1999 Plan and to the extent any outstanding options under the 1999 Plan terminate or expire unexercised, the shares of Class A common stock subject to those options will not be available for reissuance under the 1999 Plan. As of December 31, 2005 approximately 0.2 million shares of common stock were reserved for issuance upon exercise of existing outstanding options under the 1999 Plan. The 1998 Plan, 1999 Plan and Predecessor Plans are collectively referred to herein as the “Broadcom Plans.”

In connection with the Company’s acquisitions, the Company has assumed stock options granted under stock option plans or agreements established by each acquired company. As of December 31, 2005, approximately 2.2 million and 0.1 million shares of Class A and Class B common stock, respectively, were reserved for issuance upon exercise of outstanding options assumed under these stock option plans.

Combined Incentive Plan Activity

Activity under all the stock incentive plans in 2005, 2004 and 2003 is set forth below:

		Options Outstanding		
	Shares Available for Grant	Number of Shares	Price Range Per Share	Weighted Average Exercise Price Per Share
	(In thousands)			
Balance at December 31, 2002	20,958	132,000	\$.02 - \$213.06	\$30.84
Additional shares reserved	25,501	—	—	—
Options granted under Broadcom Plans	(48,257) ⁽²⁾	48,257 ⁽²⁾	12.63 - 36.05	32.30
Options assumed in acquisitions	—	398 ⁽¹⁾	.02 - .02	.02
Options cancelled	28,432 ⁽³⁾	(29,920) ⁽⁴⁾	.02 - 213.06	47.29
Options tendered in stock option exchange offer	—	(32,643)	23.58 - 219.48	48.59
Shares issued in stock option exchange offer . . .	(8,574)	—	—	—
Options exercised	<u>—</u>	<u>(15,179)</u>	<u>.02 - 33.68</u>	<u>11.89</u>
Balance at December 31, 2003	18,060	102,913	.02 - 155.50	23.51
Additional shares reserved	25,771	—	—	—
Options granted under Broadcom Plans	(13,292)	13,292	25.98 - 45.41	35.32
Share awards granted under Broadcom Plans . . .	(157)	—	—	—
Options assumed in acquisitions	—	855 ⁽¹⁾	.02 - 10.31	4.86
Options cancelled	4,547	(4,742)	.02 - 155.50	27.49
Options exercised	<u>—</u>	<u>(14,678)</u>	<u>.02 - 40.59</u>	<u>15.21</u>
Balance at December 31, 2004	34,929	97,640	.02 - 122.25	26.00
Additional shares reserved	24,590	—	—	—
Options granted under Broadcom Plans	(21,044)	21,044	27.48 - 49.02	33.72
Share awards granted under Broadcom Plans . . .	(5,621)	—	—	—
Options assumed in acquisitions	—	161 ⁽¹⁾	2.96 - 2.96	2.96
Options cancelled	3,733	(3,795)	.02 - 56.63	31.44
Options exercised	—	(20,312)	.02 - 45.41	21.09
Share awards cancelled	<u>527</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2005	<u>37,114</u>	<u>94,738</u>	<u>\$.02 - \$122.25</u>	<u>\$28.52</u>

(1) Includes options assumed in connection with acquisitions and/or additional options subsequently issued upon achievement of internal performance goals (see Note 3).

(2) Includes approximately 18.3 million replacement options issued pursuant to the Company's 2003 stock option exchange offer to employees.

(3) Includes approximately 19.2 million unvested options cancelled from Broadcom Plans pursuant to the Company's 2003 stock option exchange offer to employees.

(4) Includes approximately 20.1 million unvested options cancelled from Broadcom Plans and options assumed in connection with acquisitions pursuant to the Company's 2003 stock option exchange offer to employees.

The weighted average remaining contractual life and weighted average per share exercise price of options outstanding and of options exercisable as of December 31, 2005 were as follows:

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Shares (In thousands)	Weighted Average Remaining Contractual Life (In years)	Weighted Average Exercise Price	Number of Shares (In thousands)	Weighted Average Exercise Price
\$.00 to \$ 10.63	5,659	3.95	\$ 3.91	4,801	\$ 3.15
11.51 to 18.77	16,228	6.33	15.87	12,753	15.95
18.85 to 29.84	11,422	6.05	23.69	6,950	22.14
29.90 to 39.44	55,141	8.21	34.03	27,046	34.65
39.55 to 49.02	6,017	8.41	42.96	2,215	42.06
50.88 to 122.25	271	3.84	59.88	270	59.73
	<u>94,738</u>	7.37	28.52	<u>54,035</u>	26.27

Additional information relating to the stock incentive plans is as follows:

	December 31,		
	2005	2004	2003
	(Number of shares in thousands)		
Unvested options outstanding	40,703	45,774	61,637
Unvested exercisable options outstanding	312	515	811
Vested exercisable options outstanding	<u>53,723</u>	<u>51,351</u>	<u>40,465</u>
Total options outstanding	94,738	97,640	102,913
Shares available for grant of additional equity awards	<u>37,114</u>	<u>34,929</u>	<u>18,060</u>
Total shares of common stock reserved for stock incentive plans	<u>131,852</u>	<u>132,569</u>	<u>120,973</u>
Restricted stock units outstanding	4,723	147	—
Nonvested common shares subject to repurchase	243	556	149
Weighted average per share repurchase price	\$ 0.79	\$ 1.15	\$ 7.15

The Company records deferred compensation for restricted stock units granted to employees, employee stock options and restricted common stock assumed in acquisitions. Net deferred compensation is presented as a reduction of shareholders' equity and is amortized ratably over the respective vesting periods of the applicable restricted stock units, employee stock options and restricted stock. The activity recorded in net deferred compensation by component in 2005 and 2004 was as follows:

	Years Ended December 31,	
	2005	2004
	(In thousands)	
Awards to employees	\$193,750	\$ 4,314
Acquisitions	11,135	37,802
Terminations	<u>(9,052)</u>	<u>(5,063)</u>
	<u>\$195,833</u>	<u>\$37,053</u>

The activity recorded for stock-based compensation expense by component was as follows:

	Years Ended December 31,		
	2005	2004	2003
		(In thousands)	
Restricted stock units	\$35,195	\$ 2,790	\$ —
Acquisitions	21,941	69,736	346,990
Stock option exchange program	—	—	217,940
Other awards to employees	2,868	2,161	12,557
	<u>\$60,004</u>	<u>\$74,687</u>	<u>\$577,487</u>

Included in these amounts is approximately \$1.0 million of stock-based compensation expense, which was classified as restructuring costs in 2003 resulting from an extension of the post-service exercise period for vested stock options of certain terminated employees and due to the acceleration of the vesting period of certain options of certain terminated employees as required by their assumed option agreements. Also included in the 2003 amount is approximately \$88.1 million of settlement costs reflecting the acceleration from future periods of stock-based compensation expense, most of which was previously recorded as deferred compensation upon the acquisition of ServerWorks (and based upon stock market valuations at the time of the acquisition).

Outstanding stock options assumed in certain acquisitions were subject to variable accounting in accordance with FIN 44 and FIN 28 and were revalued quarterly over their vesting periods until all performance goals were satisfied or until the options were exercised, forfeited, cancelled or expired. In 2003 all remaining performance goals were achieved for ServerWorks and Mobilink and variable accounting was no longer required for these assumed outstanding stock options. Prior to the remaining performance goals being achieved, stock-based compensation expense in 2003 included reversals of \$3.1 million of previously recorded stock-based compensation expense related to stock options subject to variable accounting. Variable accounting is based on the amount by which the Class A common stock closing price at the end of each quarterly reporting period, or at the date of exercise, if earlier, exceeded the exercise price.

Shares Reserved For Future Issuance

The Company had the following shares of common stock reserved for future issuance upon the exercise or issuance of equity instruments as of December 31, 2005:

	Number of Shares
Stock options outstanding	94,738
Authorized for future grants under stock incentive plans	37,114
Authorized for future issuance under stock purchase plan	3,163
Restricted stock units outstanding	<u>4,723</u>
	<u>139,738</u>

In January 2006 options to purchase approximately 9.2 million shares were exercised with a weighted-average exercise price of approximately \$25.71 per share. The effects of these exercises are not included in the tables above.

2003 Stock Option Exchange Offer

In April 2003 the Company commenced an offering to its employees to voluntarily exchange certain vested and unvested stock option grants. Under the program, employees holding options to purchase the Company's Class A or Class B common stock were given the opportunity to exchange certain of their existing options, with exercise prices at or above \$23.58 per share. Stock options to purchase an aggregate of approximately 57.3 million shares with a weighted average exercise price of \$47.32 per share were eligible for tender at the commencement of the program, representing approximately 43.6% of the Company's outstanding stock options as of the commencement date.

In May 2003 the offer period ended and the Company accepted for exchange and cancellation *vested* eligible options to purchase approximately 32.6 million shares of Class A or Class B common stock, with a weighted average exercise price of \$48.59 per share. In exchange, the Company issued approximately 8.6 million fully vested, non-forfeitable shares of the Company's Class A common stock and recorded stock-based compensation expense of approximately \$162.3 million related to the issuance of such vested shares, based on the closing price of the Company's Class A common stock on May 5, 2003 of \$18.93 per share. Additionally, in May 2003 the Company accepted for exchange and cancellation *unvested* eligible options to purchase approximately 20.1 million shares of Class A or Class B common stock, with a weighted average exercise price of \$50.93 per share. In exchange, new options to purchase approximately 18.3 million shares of the Company's Class A common stock were issued in November 2003. The terms and conditions of the new options, including the vesting schedules, were substantially the same as the terms and conditions of the options cancelled. The exercise price for the new options was \$35.12 per share, which was the last reported trading price of the Company's Class A common stock on the grant date.

Eligible employees (members of the Company's Board of Directors were not eligible to participate in the offer) who participated in the offer received, in exchange for the cancellation of *vested* eligible options, an amount of consideration, represented by fully vested, non-forfeitable common stock, equal to the number of shares underlying such vested eligible options, multiplied by the offered value (as determined under certain terms and conditions set forth in the Company's offer), divided by the closing price of the Company's Class A common stock as reported on the NASDAQ National Market on May 5, 2003. The Company concluded that the consideration paid for the eligible options represented "substantial consideration" as required by EITF Issue No. 00-23, *Issues Relating to Accounting for Stock Compensation Under APB Opinion No. 25 and FASB Interpretation No. 44* ("EITF 00-23"), as the offered value per vested option was at least equal to the fair value for each eligible option, as determined using the Black-Scholes option pricing model. In determining the fair value of the eligible options using the Black-Scholes option pricing model, the Company primarily used the following assumptions: (i) an expected life of approximately four years; (ii) an expected volatility of 0.70 during that expected life; (iii) a risk-free interest rate of 2.72%; and (iv) no dividends. The weighted average offered value per vested option share was \$4.97.

Certain of the Company's employees held *unvested* eligible options that were previously assumed by the Company in connection with acquisitions that were accounted for using the purchase method of accounting. The Company had recorded deferred compensation with respect to those options based upon the applicable stock market valuation at the time of acquisition. To the extent those employees tendered, and the Company accepted for exchange and cancellation, such assumed eligible options in exchange for new options, the Company was required to immediately accelerate the amortization of the remaining related deferred compensation previously recorded. Consequently, the Company recorded a non-cash charge of approximately \$55.6 million in May 2003, reflecting the acceleration from future periods of stock-based compensation expense.

Variable accounting was not required under EITF 00-23 for eligible options subject to the offer that were not surrendered for cancellation, because: (i) the shares of Class A common stock offered as consideration for the surrendered options were fully vested and non-forfeitable and (ii) the number of shares received by an employee who accepted the offer was based on the number of surrendered eligible options multiplied by the offered value per vested option, divided by the fair value of the stock at the date of exchange.

The Company further concluded that the "look back" and "look forward" provisions of paragraph 45 of FIN 44 applied to the stock options surrendered for cancellation. If any stock options were granted to participants in the offer within the six months prior to or following May 5, 2003, those stock options would be subject to variable accounting. As a result of these provisions, the Company recorded approximately \$1.7 million, \$0.3 million and \$3.5 million in 2005, 2004 and 2003, respectively, of stock-based compensation expense related to the portion of these variable options that vested during the periods.

In addition to the non-cash charges described above, the Company incurred certain associated employer payroll taxes and professional fees of approximately \$2.8 million in connection with the offering. Employees were responsible for satisfying their portion of the payroll taxes, either through direct cash payment to the Company or through the sale of a portion of their new shares.

Stock option exchange expense of approximately \$11.5 million and \$209.3 million was recorded as cost of revenue — stock-based compensation and as other operating expenses, respectively, in the consolidated statements of operations. Of the \$209.3 million stock option exchange expense, approximately \$164.8 million related to employees engaged in research and development and \$44.5 million related to employees engaged in selling, general and administrative activities.

Defined Contribution 401(k) Savings and Investment Plan

The Company sponsors a defined contribution 401(k) savings and investment plan, established in 1996, covering substantially all of the Company's employees, subject to certain eligibility requirements. At its discretion, the Company may make contributions to this plan. The Company made no contributions to this plan in 2005, 2004 or 2003.

9. Impairment of Goodwill and Acquired Patents

Impairment of Goodwill

Years 2005, 2004 and 2003

The Company performed annual impairment assessments of the carrying value of the goodwill recorded in connection with various acquisitions as required under SFAS 142 in October 2005, 2004 and 2003. In accordance with SFAS 142, the Company compared the carrying value of each of its reporting units that existed at those times to their estimated fair value. At October 1, 2005, 2004 and 2003, the Company had four reporting units as determined and identified in accordance with SFAS 142.

The Company estimated the fair values of its reporting units primarily using the income approach valuation methodology that includes the discounted cash flow method, taking into consideration the market approach and certain market multiples as verification of the values derived using the discounted cash flow methodology. The discounted cash flows for each reporting unit were based on discrete four year financial forecasts developed by management for planning purposes and consistent with those distributed to the Company's Board of Directors. Cash flows beyond the four year discrete forecast were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends for each identified reporting unit and considered long-term earnings growth rates for publicly traded peer companies. Future cash flows were discounted to present value by incorporating the present value techniques discussed in FASB Concepts Statement 7. Specifically, the income approach valuations included reporting unit cash flow discount rates ranging from 13% to 17%, and terminal value growth rates ranging from 0% to 10%. Publicly available information regarding the market capitalization of the Company was also considered in assessing the reasonableness of the cumulative fair values of its reporting units estimated using the discounted cash flow methodology.

Upon completion of the October 2005, 2004 and 2003 annual impairment assessments, the Company determined no impairment was indicated as the estimated fair values of the four reporting units exceeded their respective carrying values.

In May 2003 the Company determined that indicators of impairment existed for two of its reporting units, ServerWorks and mobile communications, and an additional impairment assessment was performed at that time. The Company tested the goodwill of these reporting units for impairment in accordance with SFAS 142 as described above. Based on that assessment, the Company recorded a charge of \$438.6 million in June 2003 to write down the value of goodwill associated with the two reporting units. Of this charge, \$414.5 million represented the balance of goodwill related to the ServerWorks reporting unit and \$24.1 million represented the balance of goodwill related to the mobile communications reporting unit.

With respect to the ServerWorks reporting unit, the primary factors that contributed to the impairment assessment were additional competitive pressures in the server market and recent design losses experienced by that reporting unit that were attributable, in part, to the Company's ongoing inability to obtain required design information from a third party that is also a competitor. Another factor that contributed to the impairment assessment was the recording of additional goodwill due to contingent consideration earned by former ServerWorks stockholders and employees (see Note 3). As a result of the competitive pressures and design losses,

the Company reduced its forecasts of future operating results for the ServerWorks reporting unit for periods beginning as early as the second quarter of 2004 with the expectation of future loss of market share for that business. These forecasts in turn formed the basis for estimating the fair value of the ServerWorks reporting unit as of June 2003.

With respect to the mobile communications reporting unit, the primary factor that contributed to the impairment assessment was the recording of additional goodwill due to contingent consideration earned by former Mobilink shareholders and employees in May 2003 (see Note 3), after that reporting unit had already been written down to its implied fair value in October 2002.

Impairment of Acquired Patents

In November 2005 the Company acquired an issued U.S. patent, with various foreign counterparts, related to integrated circuit package testing for \$0.5 million. In January 2004 the Company acquired approximately 80 patents and patent applications related to the read channel and hard disk controller market for \$18.0 million. In December 2003 the Company acquired Ethernet networking patents for \$1.0 million. The immediate purpose for acquiring these patent portfolios was to assist the Company in the defense and settlement of then ongoing and future intellectual property litigation. As a result, the Company was unable to estimate any future cash flows from the patents. The Company also does not have any plans to resell the patents to a third party. Due to the intended use for these assets, the Company concluded that indicators of impairment existed upon acquisition of the patents because the carrying value of the patents might not be recoverable. Upon determining that indicators of impairment existed, the Company performed recoverability test in accordance with SFAS 144. Estimates of future cash flows used to test the recoverability of long-lived assets should include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of the use and eventual disposition of the asset. The only cash flows expected to arise as a direct result of the use of the patents are the cash savings expected to result from reduced but undeterminable litigation expenses over the next several years. Due to the unpredictable nature of legal disputes, it is not possible to reasonably: (i) determine if the Company's strategy with respect to the patents will be successful, (ii) forecast litigation expenses that would have been incurred if the patent portfolio was not acquired, or (iii) forecast cash flows generated as a result of acquiring the patents. As a result, no reasonable analysis could be prepared to support future cash flows associated with the patents. Accordingly, pursuant to SFAS 144 the patents were determined to be fully impaired at their respective dates of acquisition. The impairment charges for the patent portfolios were classified as impairment of goodwill and other intangible assets in the consolidated statements of operations in 2005, 2004 and 2003.

10. Restructuring Costs

From the second quarter of 2001 through the third quarter of 2002, the Company implemented a plan to restructure its operations in response to the challenging economic climate. As a result of the prolonged downturn in the semiconductor industry, the Company announced an additional restructuring program which it implemented from the fourth quarter of 2002 through the second quarter of 2003. The plans focused on cost reductions and operating efficiencies, including workforce reductions and lease terminations. These restructuring plans resulted in certain business unit realignments, workforce reductions and consolidation of excess facilities. Approximately 670 employees were terminated across all of the Company's business functions and geographic regions in connection with these restructuring plans.

Activity and liability balances related to restructuring plans were as follows:

	<u>Total</u>
Restructuring liabilities at December 31, 2002	\$ 55,691
Charged to expense in 2003	2,932
Non-cash costs ⁽²⁾	(972)
Cash payments ⁽³⁾	<u>(20,477)</u>
Restructuring liabilities at December 31, 2003	37,174
Liabilities assumed in acquisitions ⁽¹⁾	3,411
Cash payments ⁽³⁾	<u>(13,468)</u>
Restructuring liabilities at December 31, 2004	27,117
Liabilities assumed in acquisitions ⁽¹⁾	1,457
Cash payments ⁽³⁾	(9,853)
Reversal of restructuring liabilities ⁽⁴⁾	<u>(2,500)</u>
Restructuring liabilities at December 31, 2005	<u>\$ 16,221</u>

(1) Although not related to its restructuring plans, the Company assumed additional restructuring liabilities of approximately \$3.4 million in connection with the Sand Video, WIDCOMM, Zyray and Alphamosaic acquisitions in 2004 and \$1.5 million in connection with its acquisition of Zeevo, Inc. in March 2005, primarily for the consolidation of excess facilities relating to lease terminations, non-cancelable lease costs and write-offs of leasehold improvements.

(2) Non-cash costs related to stock-based compensation expense resulting from an extension of the exercise period for vested stock options of certain terminated employees and the acceleration of the vesting period of certain options of certain terminated employees as required by their assumed option agreements, and the write-off of leasehold improvements.

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

(4) The Company recorded a reversal of restructuring liabilities of approximately \$2.5 million primarily reflecting a revised estimate of sublease assumptions.

These restructuring charges were classified as operating expenses in the Company's consolidated statements of operations.

Certain of the Company's restructuring charges were recorded in periods subsequent to the initial implementations of the restructuring plans. These subsequent charges were primarily due to the inability to reasonably estimate those costs at the time of the initial implementations as the Company was still in the process of reviewing many of its facilities to determine where the Company could consolidate and which locations would no longer be required.

11. Settlement Costs

In June 2005 the Company recorded \$110.0 million in settlement costs primarily related to the settlement of securities class action litigation against the Company and certain of its current and former officers and directors. The Company recorded \$68.7 million in settlement costs in 2004. Of that amount, \$60.0 million was related to the settlement of various litigation matters, and the remaining \$8.7 million reflected settlement costs related to a claim arising from an acquisition and certain indemnification costs. For a more detailed discussion of the Company's settled and outstanding litigation, see Notes 3 and 12.

In May 2003 the Company completed a management transition at its ServerWorks subsidiary and entered into a settlement agreement resolving various issues and disputes raised by certain employees and former securities holders of ServerWorks, including issues and disputes with three departing employees, relating to agreements entered into when the Company acquired ServerWorks in January 2001. In connection with the settlement, the Company incurred approximately \$25.2 million in cash payments and expenses and recorded a one-time non-cash charge of approximately \$88.1 million in May 2003, reflecting the acceleration from future periods of stock-based

compensation expense, most of which was previously recorded as deferred compensation upon the acquisition of ServerWorks (and based upon stock market valuations at the time of the acquisition).

In August 2003 the Company and Intel Corporation agreed to settle all litigation between the companies as well as litigation involving their respective affiliates. In connection with the settlement agreement, the Company paid Intel \$60.0 million in 2003.

The Company recorded an additional \$21.2 million in settlement costs in 2003 in connection with the settlement of other litigation and third party claims.

12. Litigation

Intellectual Property Proceedings. In May 2005 the Company filed a complaint in the U.S. International Trade Commission (“ITC”) asserting that Qualcomm Incorporated (“Qualcomm”) has engaged in unfair trade practices by importing integrated circuits and other products that infringe, both directly and indirectly, five of the Company’s patents relating generally to wired and wireless communications. The complaint seeks an exclusion order to bar importation of those Qualcomm products into the United States and a cease and desist order to bar further sales of infringing Qualcomm products that have already been imported. In June 2005 the ITC instituted an investigation of Qualcomm based upon the allegations made in the Company’s complaint. A hearing before the ITC administrative law judge is scheduled to commence February 15, 2006, and the ITC has set a target date of September 2006 for completion of the investigation. Various third parties have filed motions to intervene in the proceedings to contest the application of any exclusion order to downstream products. The ITC has not yet ruled on the motions.

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

The second District Court complaint asserts that Qualcomm has infringed, both directly and indirectly, five other Broadcom patents relating generally to wired and wireless communications and multimedia processing technologies. The complaint seeks preliminary and permanent injunctions against Qualcomm and the recovery of monetary damages, including treble damages for willful infringement, and attorneys’ fees. In July 2005 Qualcomm answered the second complaint and asserted counterclaims seeking a declaratory judgment that the Company’s patents are invalid and not infringed. The court denied Qualcomm’s motion to stay the second action pending the outcome of the ITC action, and discovery is now proceeding. A claims construction hearing is scheduled for July 2006 and trial has been set for February 2007.

In July 2005 Qualcomm filed a complaint against the Company in the United States District Court for the Southern District of California asserting that certain of the Company’s products infringe, both directly and indirectly, seven Qualcomm patents relating generally to the transmission, reception and processing of communication signals, including radio signals and/or signals for wireless telephony. The complaint seeks a preliminary and permanent injunction against the Company as well as the recovery of monetary damages and attorneys’ fees. The Company filed an answer in September 2005 denying the allegations in Qualcomm’s complaint and asserting counterclaims. The counterclaims seek a declaratory judgment that the seven Qualcomm patents are invalid and not infringed, and assert that Qualcomm has infringed, both directly and indirectly, six of the Company’s patents relating generally to wired and wireless communications. The counterclaims seek preliminary and permanent injunctions against Qualcomm and the recovery of monetary damages, including treble damages for willful infringement, and attorneys’ fees. In January 2006 Qualcomm amended its complaint to seek treble damages for willful infringement. Discovery is ongoing, but no trial date has been set. The court has scheduled claims construction hearings in March and May 2006.

In August 2005 Qualcomm filed a second complaint against the Company in the United States District Court for the Southern District of California asserting that the Company breached a contract relating to Bluetooth development and seeking a declaration that two of the patents asserted by the Company in the ITC proceeding are invalid and not infringed. In December 2005 Qualcomm filed a motion for partial summary judgment and entry of a permanent injunction to prevent the Company from proceeding in the ITC on the two patents. In February 2006 the Court granted the injunction, which means that the Company's claims related to the two patents will proceed in the San Diego court rather than in the ITC. Discovery in the action has not commenced, and no trial date has been set.

In October 2005 Qualcomm filed a third complaint against the Company in the United States District Court for the Southern District of California asserting that certain of the Company's products infringe, both directly and indirectly, two Qualcomm patents relating generally to the processing of digital video signals. The complaint seeks preliminary and permanent injunctions against the Company as well as the recovery of monetary damages and attorneys' fees. The Company filed an answer in December 2005 denying the allegations in Qualcomm's complaint and asserting counterclaims seeking a declaratory judgment that the two Qualcomm patents are invalid and not infringed. In February 2006 the court began a claims construction hearing on the two patents, which hearing has been continued to March 2006. Discovery in the action is ongoing, but no trial date has been set.

Antitrust Proceedings. In July 2005 the Company filed a complaint against Qualcomm in the United States District Court for the District of New Jersey asserting that Qualcomm's licensing and other practices related to cellular technology and products violate federal and state antitrust laws. The complaint also asserts causes of action based on breach of contract, promissory estoppel, fraud, and tortious interference with prospective economic advantage. In September 2005 the Company filed an amended complaint in the action also challenging Qualcomm's proposed acquisition of Flarion Technologies, Inc. under the antitrust laws and asserting violations of various state unfair competition and unfair business practices laws. In December 2005 Qualcomm filed a motion to dismiss the complaint. The court has not yet ruled on the motion. Discovery has commenced, but a trial date has not been set.

In October 2005 the Company and five other leading mobile wireless technology companies filed complaints with the European Commission requesting that the Commission investigate Qualcomm's anticompetitive conduct related to the licensing of its patents and the sale of its chipsets for mobile wireless devices and systems. The Commission has commenced a preliminary investigation, and is determining whether to institute a formal investigation, of Qualcomm.

Securities Litigation. In 2001 the Company and three of its current and former executive officers were served with a number of shareholder class action complaints alleging violations of the Securities Exchange Act of 1934, as amended. The essence of the allegations was that the defendants intentionally failed to disclose and properly account for the financial impact of performance-based warrants assumed in connection with five acquisitions consummated in 2000 and 2001, which plaintiffs alleged had the effect of materially overstating the Company's reported and future financial performance. The lawsuits were consolidated into a single action before the United States District Court for the Central District of California entitled *In re Broadcom Corp. Securities Litigation* (the "Class Action"). The court issued an order certifying a class of all persons or entities who purchased or otherwise acquired publicly traded securities of the Company, or bought or sold options on the Company's stock, between July 31, 2000 and February 26, 2001, with certain exceptions.

By a Stipulation of Settlement (the "Stipulation") dated as of June 24, 2005, the parties agreed to settle the Class Action. Pursuant to the Stipulation, the Class Action has been dismissed with prejudice in exchange for an aggregate payment of \$150.0 million (the "Settlement Fund"), which will be held in escrow and distributed to class members after the payment of the costs of administering the settlement and fees and costs awarded to plaintiffs' counsel by the court. The Company's insurance carriers paid \$40.0 million of the Settlement Fund, and the balance was paid by the Company. As part of the settlement, the Company and the other Defendants continue to deny any liability or wrongdoing with respect to the claims raised in the Class Action. In September 2005 the court granted final approval of the Stipulation and entered final judgment and an order of dismissal thereon and made effective full releases by all class members of all claims relating to the matters asserted in the

Class Action. In October 2005 two objectors to the settlement filed notices of appeal before the Ninth Circuit Court of Appeals from, among other things, the order granting final approval of the settlement and the final judgment and order of dismissal. In December 2005 one of the objectors decided to voluntarily dismiss its appeal, and the parties filed a stipulation with the Ninth Circuit Court of Appeals dismissing that appeal. The second objector also decided to voluntarily dismiss its appeal, and the parties filed a stipulation in January 2006 dismissing the final appeal. The settlement, final judgment and order of dismissal are now final and no longer subject to appeal.

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

The Company has entered into indemnification agreements with each of its present and former directors and officers. Under these agreements, the Company was required to indemnify each such director or officer against expenses, including attorney's fees, judgments, fines and settlements (collectively "Liabilities"), paid by such individual in connection with the Class Action and the *Arenson* lawsuit (other than Liabilities arising from willful misconduct or conduct that is knowingly fraudulent or deliberately dishonest).

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

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

The pending proceedings involve complex questions of fact and law and likely will require the expenditure of significant funds and the diversion of other resources to prosecute and defend. The results of legal proceedings are inherently uncertain, and material adverse outcomes are possible. The resolution of any future intellectual property litigation may require us to pay damages for past infringement or one-time license fees or running royalties, which could adversely impact gross profit and gross margins in future periods, or could prevent us from manufacturing or selling some of our products or limit or restrict the type of work that employees involved in such litigation may perform for the Company. From time to time the Company may enter into confidential discussions regarding the potential settlement of pending litigation or other proceedings; however, there can be no assurance that any such discussions will occur or will result in a settlement. The settlement of any pending litigation or other proceeding could require the Company to incur substantial settlement payments and costs. In addition, the settlement of any intellectual property proceeding may require the Company to obtain a license under a third party's intellectual property rights that could require one-time license fees and/or royalty payments in the future and/or to grant a license to certain of its intellectual property rights to a third party under a cross-license agreement. If any of those events were to occur, the Company's business, financial condition and results of operations could be materially and adversely affected. For information regarding the Company's litigation settlements in 2005, see Note 11.

13. Significant Customer, Supplier and Geographical Information

Sales to the Company's significant customers, including sales to their manufacturing subcontractors, as a percentage of net revenue were as follows:

	Years Ended December 31,		
	2005	2004	2003
Motorola	15.5%	12.4%	*
Hewlett-Packard	*	12.9	15.5%
Dell	*	*	11.9
Five largest customers as a group	45.3	51.1	51.6

* Less than 10% of net revenue.

No other customer represented more than 10% of the Company's annual net revenue in these years.

Net revenue derived from all independent customers located outside of the United States as a percent of total net revenue was as follows:

	Years Ended December 31,		
	2005	2004	2003
Asia (primarily in Taiwan, Korea and China)	17.8%	15.0%	19.6%
Europe (primarily in France and the United Kingdom)	7.6	6.4	5.9
Other	0.4	0.2	0.3
	<u>25.8%</u>	<u>21.6%</u>	<u>25.8%</u>

Such net revenue does not include revenue from products shipped to subsidiaries or manufacturing subcontractors of customers that have headquarters in the United States even though such subsidiaries or manufacturing subcontractors are located outside of the United States. Net revenue derived from actual shipments to international destinations, primarily to Asia, represented approximately 84.5%, 79.0% and 77.7% of the Company's net revenue in 2005, 2004 and 2003, respectively. All of the Company's revenue to date has been denominated in U.S. dollars.

The Company does not own or operate a fabrication facility. Five independent third-party foundries located in Asia manufacture substantially all of the Company's semiconductor devices in current production. Any sudden demand for an increased amount of semiconductor devices or sudden reduction or elimination of any existing source or sources of semiconductor devices could result in a material delay in the shipment of the Company's products. In addition, substantially all of the Company's products are assembled and tested by one of seven independent third-party subcontractors in Asia. The Company does not have long-term agreements with any of these suppliers. Any problems associated with the fabrication facilities or the delivery, quality or cost of the Company's products could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company has an international distribution center that includes engineering design and administrative facilities in Singapore as well as engineering design facilities in Belgium, Canada, China, Denmark, France, Greece, India, Israel, Japan, Korea, the Netherlands, Taiwan and the United Kingdom. At December 31, 2005 approximately \$22.1 million of the Company's long-lived assets (excluding goodwill and purchased intangible assets) were located outside the United States.

14. Quarterly Financial Data (Unaudited)

The following table presents unaudited quarterly financial data of the Company. In the Company's opinion, this information has been prepared on a basis consistent with that of its audited consolidated financial statements and all necessary material adjustments, consisting of normal recurring accruals and adjustments, have been included to present fairly the unaudited quarterly financial data. The Company's quarterly results of operations for these periods are not necessarily indicative of future results of operations.

	<u>Net Revenue</u>	<u>Gross Profit</u>	<u>Net Income</u>	<u>Diluted Net Income Per Share</u>
	(In thousands, except per share data)			
Year Ended December 31, 2005				
Fourth Quarter	\$820,605	\$432,032	\$194,830 ⁽¹⁾	\$.50
Third Quarter	694,977	367,898	132,656 ⁽²⁾	.35
Second Quarter	604,861	321,406	15,061 ⁽³⁾	.04
First Quarter	550,345	284,229	69,182 ⁽⁴⁾	.19
Year Ended December 31, 2004				
Fourth Quarter	\$539,390	\$269,095	\$ 71,141 ⁽⁵⁾	\$.20
Third Quarter	646,515	324,476	43,901 ⁽⁶⁾	.13
Second Quarter	641,299	323,820	63,839 ⁽⁷⁾	.18
First Quarter	573,406	289,925	39,864 ⁽⁸⁾	.12

(1) Includes IPR&D of \$1.8 million and impairment of acquired patent portfolio of \$0.5 million and income tax benefits from adjustments to tax reserves of foreign subsidiaries of \$3.4 million.

(2) Includes IPR&D of \$35.0 million, reversal of restructuring costs of \$2.5 million and income tax benefits from adjustments to tax reserves of foreign subsidiaries of \$25.9 million and gain on strategic investments of \$1.2 million.

(3) Includes litigation settlement costs of \$110.0 million.

(4) Includes IPR&D of \$6.7 million.

(5) Includes settlement costs of \$0.5 million and a tax benefit of \$21.3 million.

(6) Includes IPR&D of \$37.3 million, litigation settlement costs of \$35.7 million and net gain on strategic investments of \$5.2 million.

(7) Includes IPR&D of \$24.2 million and litigation settlement costs of \$13.5 million.

(8) Includes impairment of acquired patent portfolio of \$18.0 million, IPR&D of \$2.3 million and litigation settlement costs of \$19.0 million.

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Exhibits and Financial Statement Schedules

Exhibit Index

Exhibit Number	Description	Where Located				Filed Herewith
		Form	File No.	Exhibit No.	Filing Date	
2.1	Merger Agreement and Plan of Reorganization by and among the registrant, RCC Acquisition Corp., Reliance Computer Corp., and the Other Parties Signatory Thereto dated as of January 5, 2001.	8-K	000-23993	2.1	01/31/2001	
3.1	Amended and Restated Articles of Incorporation dated March 3, 1998.	S-1/A	333-45619	3.1	03/23/1998	
3.2	Certificate of Amendment of Amended and Restated Articles of Incorporation dated December 28, 1999.	10-K	000-23993	3.1.2	03/31/2003	
3.3	Certificate of Amendment of Amended and Restated Articles of Incorporation dated June 26, 2000.	10-K	000-23993	3.1.1	04/02/2001	
3.4	Bylaws as amended through August 21, 2003.	10-K	000-23993	3.2	03/15/2004	
10.1*	2005 Base Salaries for Certain Executive Officers.	8-K	000-23993	10.1	02/07/2005	
10.2*	2005 Performance Bonus Plan.	10-Q	000-23993	10.1	07/29/2005	
10.3*	Form Letter Agreement for Executive Retention Program between the registrant and the following executive officers: David A. Dull, Bruce E. Kiddoo, Vahid Manian, Andrew J. Pease and William J. Ruehle.	10-Q	000-23993	10.11	11/09/2004	
10.4*†	Letter Agreement between the registrant and Scott A. McGregor dated October 25, 2004.	10-K	000-23993	10.3	03/01/2005	
10.5*	Amendment to Letter Agreement between the registrant and Scott A. McGregor dated December 16, 2005.					X
10.6*	2005 Transitional Benefits for Former Chief Executive Officer.	8-K	000-23993	10.1	03/01/2005	
10.7*	Amended and Restated 1994 Stock Option Plan, together with form of Stock Option Agreement, form of Stock Purchase Agreement, form of Note Secured by Stock Pledge Agreement and form of Stock Pledge Agreement.	S-1/A	333-45619	10.3	02/27/1998	
10.8*	Special Stock Option Plan, together with form of Stock Option Agreement and form of Stock Purchase Agreement.	S-1/A	333-45619	10.12	03/23/1998	
10.9*	1998 Stock Incentive Plan (as amended and restated March 11, 2005).	10-Q	000-23993	10.1	05/04/2005	
10.10*	1998 Stock Incentive Plan forms of Notice of Grant of Stock Option, Stock Issuance Agreement, Stock Purchase Agreement and related Addenda.	S-8	333-60763	99.2 & 99.4-99.11	08/06/1998	
10.11*	1998 Stock Incentive Plan form of Notice of Grant of Stock Option for the following executive officers: David A. Dull, Bruce E. Kiddoo, Vahid Manian, Andrew J. Pease and William J. Ruehle.	10-Q	000-23993	10.3	11/09/2004	

Exhibit Number	Description	Where Located			
		Form	File No.	Exhibit No.	Filing Date Filed Herewith
10.12*	1998 Stock Incentive Plan form of Notice of Grant of Stock Option, Stock Option Agreement and Addendum to Stock Option Agreement for Scott A. McGregor.	10-K	000-23993	10.9	03/01/2005
10.13*	1998 Stock Incentive Plan form of Stock Option Agreement.	10-Q	000-23993	10.1	11/09/2004
10.14*	1998 Stock Incentive Plan form of Automatic Stock Option Agreement for Non-Employee Directors.	10-Q	000-23993	10.2	11/09/2004
10.15*	1998 Stock Incentive Plan form of Executive Retention Program Addendum to Stock Option Agreement for the following executive officers: David A. Dull, Bruce E. Kiddoo, Vahid Manian, Andrew J. Pease and William J. Ruehle.	10-Q	000-23993	10.5	11/09/2004
10.16*	1998 Stock Incentive Plan form of Special Stock Retention Addendum to Stock Option Agreement for the registrant's Chief Executive Officer, Chief Financial Officer, Chief Technical Officer and member's of the registrant's Board of Directors.	10-Q	000-23993	10.6	11/09/2004
10.17*	1998 Stock Incentive Plan form of Restricted Stock Unit Award Agreement.	10-Q	000-23993	10.8	11/09/2004
10.18*	1998 Stock Incentive Plan form of Restricted Stock Unit Award Agreement for Non-Employee Directors (Annual Award).	10-Q	000-23993	10.2	05/04/2005
10.19*	1998 Stock Incentive Plan form of Restricted Stock Unit Award Agreement for Non-Employee Directors (Initial and Renewal Awards).	10-Q	000-23993	10.3	05/04/2005
10.20*	1998 Stock Incentive Plan form of Executive Retention Program Addendum to Restricted Stock Unit Award Agreement for the following executive officers: David A. Dull, Bruce E. Kiddoo, Vahid Manian, Andrew J. Pease and William J. Ruehle.	10-Q	000-23993	10.10	11/09/2004
10.21*	1998 Stock Incentive Plan form of Restricted Stock Unit Award Agreement and Addendum to Restricted Stock Unit Award Agreement for Scott A. McGregor.	10-K	000-23993	10.16	03/01/2005
10.22*	1998 Employee Stock Purchase Plan (as amended and restated March 21, 2003).	10-Q	000-23993	10.1	11/07/2003
10.23*	1998 Employee Stock Purchase Plan forms of Stock Purchase Agreements and Enrollment/Change Form.	10-K	000-23993	10.5.1	03/15/2004
10.24	1999 Special Stock Option Plan (as amended and restated July 18, 2003).	10-Q	000-23993	10.2	08/11/2003
10.25	1999 Special Stock Option Plan form of Stock Option Agreement.	10-Q	000-23993	10.2.1	08/11/2003
10.26	1999 Special Stock Option Plan form of Notice of Grant of Stock Option.	S-8	333-93457	99.2	12/22/1999
10.27*	Form of Indemnification Agreement for Directors of the registrant.	S-1/A	333-45619	10.1	02/27/1998
10.28*	Form of Indemnification Agreement for Officers of the registrant.	S-1/A	333-45619	10.2	02/27/1998

Exhibit Number	Description	Where Located			
		Form	File No.	Exhibit No.	Filing Date
10.29††	Development, Supply and License Agreement dated September 29, 1997 between the registrant and General Instrument Corporation, formerly known as NextLevel Systems, Inc.	S-1/A	333-45619	10.8	02/27/1998
10.30††	Amendment dated November 22, 2000 to Development, Supply and License Agreement between the registrant and General Instrument Corporation.	10-K	000-23993	10.16	04/02/2001
10.31††	Product Purchase Agreement dated November 22, 2000, together with Amendment dated January 1, 2002, to Product Purchase Agreement between the registrant and General Instrument Corporation.	10-Q	000-23993	10.1	05/15/2002
10.32††	Second Amendment dated December 3, 2002 to Product Purchase Agreement between the registrant and General Instrument Corporation.	10-K	000-23993	10.22	03/31/2003
10.33††	Third Amendment dated as of January 1, 2003 to Product Purchase Agreement between the registrant and General Instrument Corporation.	8-K	000-23993	99.1	04/16/2004
10.34††	Fourth Amendment dated March 31, 2004 to Product Purchase Agreement between the registrant and General Instrument Corporation.	10-Q	000-23993	10.25	05/10/2004
10.35†	Fifth Amendment dated as of March 30, 2005 to Product Purchase Agreement between the registrant and General Instrument Corporation.	10-Q	000-23993	10.2	07/29/2005
10.36†	Sixth Amendment dated as of June 30, 2005 to Product Purchase Agreement between the registrant and General Instrument Corporation.	10-Q	000-23993	10.3	07/29/2005
10.37	Industrial Lease (Single Tenant; Net) dated August 7, 1998 between the registrant and The Irvine Company.	S-1	333-65117	10.15	09/30/1998
10.38	First Amendment dated August 27, 1999 and Second Amendment dated December 10, 1999 to Industrial Lease (Single Tenant, Net), between the registrant and The Irvine Company.	10-K	000-23993	10.20	03/31/2003
10.39	Third Amendment (Single Tenant, Net) dated December 19, 2003 between the registrant and the Irvine Company.	10-Q	000-23993	10.12	11/09/2004
10.40	Industrial Lease (Multi-Tenant; Net) dated August 1, 2000 between the registrant and the Irvine Company; First Amendment dated October 18, 2000 and Second Amendment dated September 18, 2003 to Industrial Lease (Multi-Tenant; Net), between the registrant and The Irvine Company.	10-K	000-23993	10.33	03/01/2005
10.41	Lease Agreement dated February 1, 2000 between the registrant and Conejo Valley Development Corporation.	10-K	000-23993	10.17	03/19/2002
10.42	Lease Agreement dated May 18, 2000 between the registrant and M-D Downtown Sunnyvale, LLC.	10-K	000-23993	10.21	03/31/2003

Exhibit Number	Description	Where Located				Filed Herewith
		Form	File No.	Exhibit No.	Filing Date	
10.43	Lease dated November 20, 2000 together with Second Amendment dated March 30, 2001 to Lease between the registrant and Sobrato Interests.	10-K	000-23993	10.18	03/19/2002	
10.44	Lease (Multi-Tenant; Net) dated August 12, 2001 between the registrant and The Irvine Company; Fourth Amendment dated April 30, 2004 to Lease (Multi-Tenant; Net) between the registrant and The Irvine Company.	10-K	000-23993	10.37	03/01/2005	
10.45†	Lease Agreement dated December 29, 2004 between the registrant and Irvine Commercial Property Company.	10-K	000-23993	10.38	03/01/2005	
10.46	Stipulation of Settlement (shareholder derivative actions) dated October 26, 2004.	10-K	000-23993	10.39	03/01/2005	
10.47	Stipulation of Settlement (securities class action litigation).					X
21.1	Subsidiaries of the Company.					X
23.1	Consent of Independent Registered Public Accounting Firm.					X
31.1	Certification of the Chief Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of the Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32	Certifications of the Chief Executive Officer and Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X

* Indicates a contract, compensatory plan or arrangement in which directors or executive officers are eligible to participate.

† Confidential treatment has been requested with respect to the redacted portions of the referenced exhibit.

†† Confidential treatment has previously been granted by the SEC for certain portions of the referenced exhibit pursuant to Rule 406 under the Securities Act.

Financial Statement Schedules

(1) Report of Independent Registered Public Accounting Firm on Financial Statement Schedule . . . S-1

(2) Schedule II — Consolidated Valuation and Qualifying Accounts S-2

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the Consolidated Financial Statements or Notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Irvine, State of California, on February 14, 2006.

BROADCOM CORPORATION

By: /s/ SCOTT A. MCGREGOR

Scott A. McGregor
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ SCOTT A. MCGREGOR</u> Scott A. McGregor	President and Chief Executive Officer and Director (Principal Executive Officer)	February 14, 2006
<u>/s/ HENRY SAMUELI</u> Henry Samuelli, Ph.D.	Chairman of the Board and Chief Technical Officer	February 14, 2006
<u>/s/ WILLIAM J. RUEHLE</u> William J. Ruehle	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 14, 2006
<u>/s/ BRUCE E. KIDDOO</u> Bruce E. Kiddoo	Vice President and Corporate Controller (Principal Accounting Officer)	February 14, 2006
<u>/s/ GEORGE L. FARINSKY</u> George L. Farinsky	Director	February 14, 2006
<u>/s/ MAUREEN E. GRZELAKOWSKI</u> Maureen E. Grzelakowski	Director	February 14, 2006
<u>/s/ NANCY H. HANDEL</u> Nancy H. Handel	Director	February 14, 2006
<u>/s/ JOHN MAJOR</u> John Major	Director	February 14, 2006
<u>/s/ ALAN E. ROSS</u> Alan E. Ross	Director	February 14, 2006
<u>/s/ ROBERT E. SWITZ</u> Robert E. Switz	Director	February 14, 2006
<u>/s/ WERNER F. WOLFEN</u> Werner F. Wolfen	Director	February 14, 2006

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL
STATEMENT SCHEDULE**

**Board of Directors and Shareholders
Broadcom Corporation**

We have audited the consolidated financial statements of Broadcom Corporation as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, and have issued our report thereon dated February 9, 2006. Our audits also included the financial statement schedule listed in Item 15(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Orange County, California
February 9, 2006

SCHEDULE II — CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

BROADCOM CORPORATION

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts(a)</u> (In thousands)	<u>Deductions</u>	<u>Balance at End of Year</u>
Year ended December 31, 2005:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 6,900	\$ 149	\$ 10	\$ (817)	\$ 6,242
Sales returns	3,692	19,239	—	(17,979)	4,952
Pricing allowances	995	3,394	—	(3,400)	989
Reserve for excess and obsolete inventory	44,751	(2,349)	1,237	(6,622)	37,017
Reserve for warranty	19,185	5,621	55	(10,730)	14,131
Restructuring liabilities	<u>27,117</u>	<u>(2,500)</u>	<u>1,457</u>	<u>(9,853)</u>	<u>16,221</u>
Total	<u>\$102,640</u>	<u>\$ 23,554</u>	<u>\$2,759</u>	<u>\$ (49,401)</u>	<u>\$ 79,552</u>
Year ended December 31, 2004:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 6,493	\$ 1,793	\$ 300	\$ (1,686)	\$ 6,900
Sales returns	655	16,236	—	(13,199)	3,692
Pricing allowances	444	2,507	—	(1,956)	995
Reserve for excess and obsolete inventory	25,111	26,224	2,217	(8,801)	44,751
Reserve for warranty	5,996	14,812	157	(1,780)	19,185
Restructuring liabilities	<u>37,174</u>	<u>—</u>	<u>3,411</u>	<u>(13,468)</u>	<u>27,117</u>
Total	<u>\$ 75,873</u>	<u>\$ 61,572</u>	<u>\$6,085</u>	<u>\$ (40,890)</u>	<u>\$102,640</u>
Year ended December 31, 2003:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 4,553	\$ 1,752	\$ 637	\$ (449)	\$ 6,493
Sales returns	762	16,772	—	(16,879)	655
Pricing allowances	306	4,601	—	(4,463)	444
Reserve for excess and obsolete inventory	15,898	11,069	2,908	(4,764)	25,111
Reserve for warranty	3,881	8,325	—	(6,210)	5,996
Restructuring liabilities	<u>55,691</u>	<u>2,932</u>	<u>—</u>	<u>(21,449)</u>	<u>37,174</u>
Total	<u>\$ 81,091</u>	<u>\$ 45,451</u>	<u>\$3,545</u>	<u>\$ (54,214)</u>	<u>\$ 75,873</u>

(a) Amounts represent beginning balances acquired through purchase acquisitions.

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Broadcom's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 ends on the preceding page. The following information is part of the 2005 Annual Report to Shareholders.

10-K

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

All statements included or incorporated by reference in this 2005 Annual Report to Shareholders, other than statements or characterizations of historical fact, are forward-looking statements. These forward-looking statements are based on our current expectations, estimates and projections about our industry and business, management's beliefs, and certain assumptions made by us, all of which are subject to change. Forward-looking statements can often be identified by words such as "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "should," "would," "could," "potential," "continue," "ongoing," similar expressions, and variations or negatives of these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. Our Annual Report on Form 10-K and other filings with the Securities and Exchange Commission discuss some of the important risk factors that could contribute to such differences or otherwise affect our business, results of operations and financial condition. These forward-looking statements speak only as of the date of this Annual Report. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

Corporate Information

BOARD OF DIRECTORS

Scott A. McGregor ⁽¹⁾

President and Chief Executive Officer
Broadcom Corporation

Henry Samuelli, Ph.D. ⁽²⁾

Chairman of the Board and Chief Technical Officer
Broadcom Corporation

George L. Farinsky ⁽³⁾

Retired Financial Executive

Maureen E. Grzelakowski

Senior Advisor
Investor Growth Capital, Inc.

Nancy H. Handel

Senior Vice President, Chief Financial Officer
Applied Materials, Inc.

John Major ⁽⁴⁾

Founder and President
MTSG

Alan E. Ross

Venture Capitalist

Robert E. Switz ⁽⁵⁾

President and Chief Executive Officer
ADC Telecommunications, Inc.

Werner F. Wolfen ⁽⁶⁾

President
Capri Investments, LLC

⁽¹⁾ Chairman of the Equity Award Committee. ⁽²⁾ Member of the Equity Award Committee. ⁽³⁾ Chairman of the Audit Committee, Member of the Nominating & Corporate Governance Committee. ⁽⁴⁾ Member of the Compensation Committee and the Nominating & Corporate Governance Committee. ⁽⁵⁾ Chairman of the Nominating & Corporate Governance Committee, Member of the Audit Committee. ⁽⁶⁾ Lead Independent Director, Chairman of the Compensation Committee, Member of the Audit Committee and the Equity Award Committee.

ELECTED OFFICERS

Scott A. McGregor

President and Chief Executive Officer

Henry Samuelli, Ph.D.

Chairman of the Board and Chief Technical Officer

Yossi Cohen

Senior Vice President & General Manager,
Mobile Platforms Group

David A. Dull

Senior Vice President, Business Affairs,
General Counsel and Secretary

Dianne Dyer-Bruggeman

Senior Vice President, Global Human Resources

Edward H. Frank, Ph.D.

Vice President, Research & Development

Bruce E. Kiddoo

Vice President and Corporate Controller

Neil Y. Kim

Senior Vice President, Central Engineering

Thomas F. Lagatta

Senior Vice President & General Manager,
Enterprise Computing Group

Vahid Manian

Senior Vice President, Global Manufacturing Operations

Daniel A. Marotta

Senior Vice President & General Manager,
Broadband Communications Group

Andrew J. Pease

Senior Vice President, Global Sales

Robert A. Rango

Senior Vice President & General Manager,
Wireless Connectivity Group

William J. Ruehle

Senior Vice President and Chief Financial Officer

Ford G. Tamer, Ph.D.

Senior Vice President & General Manager,
Networking Infrastructure Group

Kenneth E. Venner

Senior Vice President and Chief Information Officer

Corporate Headquarters

Broadcom Corporation
16215 Alton Parkway
Irvine, California 92618-3616
Tel: 949.450.8700
Fax: 949.450.8710

**Independent Registered
Public Accounting Firm**

Ernst & Young LLP
Orange County, California

Transfer Agent and Registrar

U.S. Stock Transfer Corporation
1745 Gardena Avenue
Glendale, California 91204-2991
Tel: 818.502.1404 or 800.835.8778
Fax: 818.502.0674

Annual Meeting of Shareholders

Thursday, April 27, 2006
Newport Beach, California

Investor Relations

For further information on Broadcom, additional copies of this Report, our SEC filings or other financial information (available free of charge), please contact:

Investor Relations
Broadcom Corporation
P.O. Box 57013
Irvine, California 92619-7013
Tel: 949.926.5663
Fax: 949.450.8716

You may also contact us by email at
investorinfo@broadcom.com or by visiting our
website at www.broadcom.com.



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