

Processing, Transporting and Storing Information  
for Converged Networks

2007

Annual Report

# 2007 Key Milestones

*Building our success through focus and execution*

**April 3, 2006**

Industrial High-Performance Networking PowerPC®-based Microprocessor Announced

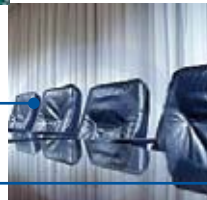


**May 16, 2006**

AMCC Unveils Storage Technology Roadmap, Affirms Commitment to PCI Express, RAID 6 and SAS to Further Enhance Performance of 3ware RAID Controllers

**May 22, 2006**

Fred Shlapak, former President and CEO of Motorola's Semiconductor Products Sector, joins the Board Of Directors



**June 5, 2006**

AMCC Announces Solution for Mobile Infrastructure Market; the nP3665 Integrated Network Processor and Traffic Manager Provides the Best Performing and Lowest Power Solution

**July 24, 2006**

AMCC Expands Dual CDR Portfolio for 10Gbps XFP Module Applications; the S19256 10Gbps Dual Clock Data Recovery Device Offers Adapted Feature Set for Lower Power Dissipation in Cost Sensitive Short and Intermediate Reach XFP Applications



**July 25, 2006**

Dr. Niel Ransom, former CTO of Alcatel, joins the Board of Directors

**August 7, 2006**

3ware® SATA II RAID Controller Recognized for Excellence; Wins Storage Magazine's Connectivity Product of the Year Award for the Second Year in a Row

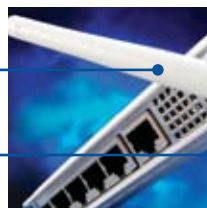


**August 23, 2006**

Brocade honors AMCC with Outstanding Customer Support, Outstanding Engineering Support Awards

**August 25, 2006**

AMCC Acquires Quake Technologies; Strengthens Leadership Role in Emerging, High-Volume Market for 10Gbps Ethernet



**September 12, 2006**

3ware Sidecar High-Performance Desktop Raid Solution Fills External Storage Gap for Apple® Workstations; Offers Mac® OS X Support, Storage Expansion and Data Protection for the Power Mac G5

**September 18, 2006**

New AMCC PHY IC enables 10Gbps Ethernet over legacy fiber

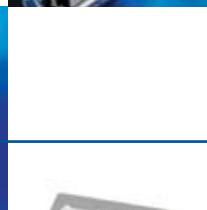


**September 25, 2006**

AMCC Demonstrates QT2035S at ECOC 2006

**October 23, 2006**

AMCC Delivers new Storage Processor with built in support for RAID 6 and PCI Express.  
AMCC Delivers new Embedded Processor for Secure Gigabit Ethernet Processing Applications.



**October 23, 2006**

AMCC Delivers Highly Integrated, Security-Enabled System-on-Chip, Offering Low-Power and Low-Cost Benefits to Customers

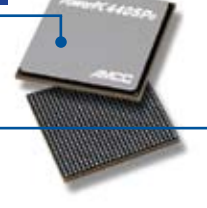
**December 4, 2006**

AMCC's Next-Generation SONET/SDH Framer/Pointer Processor Devices Deliver Major Cost Savings in Metro/Edge-based MSPP Designs



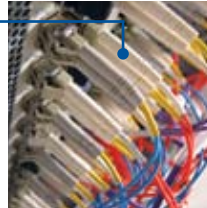
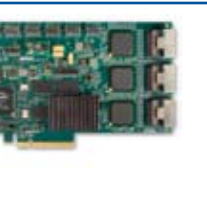
**March 19, 2007**

AMCC Unveils 24-Port Raid 6 Controller, Completing the Industry's Broadest Line of PCI Express-to-SATA II Controllers. Latest in the 3ware 9650SE Family Eclipses the Performance of Competing Controllers; AMCC Also Celebrates 2 Millionth SATA Port Shipped and Channel Market Share Leadership



**March 26, 2007**

AMCC Ships Industry's First Fully Integrated Dual Port SFP+ Transceiver; First to Market 10Gbps PHY Provides Smooth Transition for Ethernet Switch Vendors Seeking to Gain Advantages of SFP+ Module Form Factor



AMCC's goal is to be the premier  
provider of solutions for

Processing, Transporting and

Storing information for the

digital multimedia converged

networks of the future.

**AMCC**

To our Stockholders, Customers,  
Partners and Employees:

**Fiscal 2007** was my second full year leading AMCC. Fiscal 2006 can be characterized as one of stabilization, where we put together a solid leadership team and brought about prudent fiscal discipline in the way we operate.



The focus during fiscal 2007 was on strengthening existing customer relationships and creating new ones. We also acquired Quake Technologies in August 2006. This acquisition positioned AMCC to gain a foothold in the enterprise network market, which with the deployment of 10Gbps Ethernet (10GE) technology, allows us to sell into markets with significantly higher volume opportunities.

We believe that service provider, enterprise and home networks are in the process of a profound multi-year transformation and this provides us with a significant opportunity. Network connectivity is now pervasive and Internet Protocol (IP) will be the dominant converged network infrastructure of the future. Mobility is becoming an essential demand of today's consumer whether they are in the home, in the office or on the go. Simultaneously, storage needs are growing exponentially both on and off the network, driven by the ever-increasing digital storage of videos (think YouTube), photos, email, and indeed all types of digital information.

AMCC's goal is to be the premier provider of solutions for processing, transporting and storing information for the digital multimedia converged networks of the future. The converged IP networks of the future will be capable of transporting voice, video and data over a common infrastructure, while optimizing capital investment and reducing operational expenditures for carriers. Increased demand for these new network-based services is causing unrelenting growth in Internet traffic that is overwhelming the access and core network infrastructure. In order to resolve these bottlenecks, carriers are rolling out fiber-based services to their customers and this creates demand for our products that are deployed in the core and access layers of the network.

This network convergence positions AMCC in the center of this transformation. We are channeling our research and development (R&D) investments into product lines that address the exciting growth areas of Process, Transport and Store in both carrier and enterprise networks. We intend to exploit this transition by focusing on large markets that are in transition and provide plenty of competitive opportunity. Each one of our focus areas of Process, Transport and Store fit these criteria.

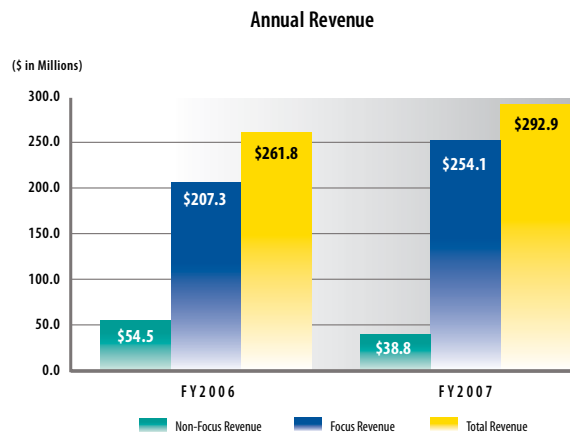
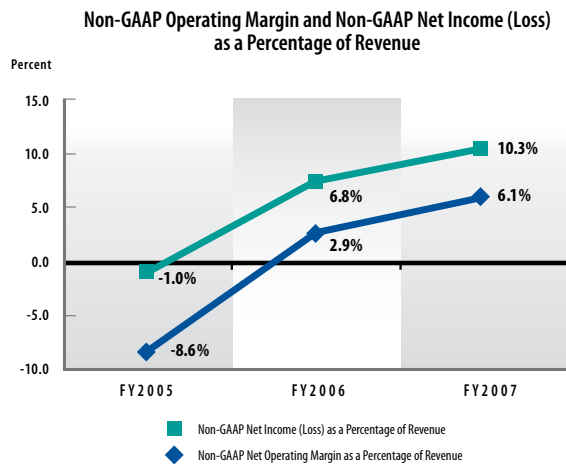


#### Process

Embedded PowerPC processors supported by industry-standard software, as well as specialized network processors optimized for data-plane applications.

- Embedded Processors
- Network Processors
- Storage Processors





In Process, we derive a significant portion of our revenue from the communications processor market. We expect this market to grow to around \$1.2 billion in 2010. PowerPC is the architecture of choice in communications infrastructure and supplies nearly two-thirds of the market today. Over the past two years, AMCC has been steadily gaining market share in this space and we are now the third largest supplier of communications processors. We expect that when market share data for 2006 is released it will show that our share of this market increased from 8.1% in 2005 to over 10% in 2006. We are progressing towards our goal of being one of the top two suppliers in the communications processor market.

In Transport, Ethernet over SONET (EoSONET) and Forward Error Correction (FEC) functionality are becoming essential as carriers leverage new services over existing SONET infrastructure. Our EoSONET and FEC products have been our fastest growing products in the transport market. We expect that when market share data for 2006 is released it will show that AMCC's market share in the overall SONET/SDH and WDM space increased from 12.8% in 2005 to around 15% in 2006.

Ethernet is the technology of choice within data centers and enterprise environments. The pervasiveness of Ethernet is helping to drive down the costs for 10GE technology and speed up 10GE deployments. In Quake Technologies we acquired a leader in 10GE physical layer device (PHY) products. We expect to leverage this leadership into our next growth engine as shipments of 10GE ports are expected to increase tenfold from 2005 to 2010.

In Storage we are a leader in SATA products sold through the distribution channel. In the last fiscal year we made steady gains with our SATA products in the European region leading to double digit revenue growth in that territory. Data storage capacity is growing at a 50% compound

annual growth rate (CAGR) and the SAS/SATA RAID controller market is expected to grow at a 35% CAGR. A transition is taking place in storage interface technology with SAS (Serial Attached SCSI). SAS enables customers to leverage a common infrastructure across SAS and SATA drives and provides more performance improvements over parallel SCSI. This market is in its infancy and is expected to grow rapidly. AMCC has tremendous RAID experience with over two million SATA ports shipped to date. In addition, our PowerPC based processing solutions and a solid storage products roadmap position us as a strong competitor in this space.

We are constantly looking to address the markets we serve with the right products. This past year we made several key product announcements that we believe will provide us with the correct growth drivers going forward.

**Process:** We announced the nP3665 Integrated Processor and Traffic Manager for the mobile infrastructure market. We also announced the PPC405EZ for the industrial networking space. We are seeing great traction and early design wins in these and other process products.

**Transport:** We announced the S19256 10Gbps Dual Clock and Data Recovery solution. This device enables lower power dissipation in cost-sensitive short and intermediate reach XFP applications. We also demonstrated the QT2035S in fiscal 2007. The advanced signal processing technology in this chip will reduce the cost of 10Gbps optics to less than a quarter the price of today's solutions.

**Store:** We announced the 3ware® 9650SE RAID controllers. These controllers scale up to 24-ports and deliver superior RAID 6 performance at over 700Mb/s. We also announced the 3ware Sidecar for Apple® workstation users. The Sidecar is an external desktop RAID solution targeted for the professional consumer market.

## Transport

*Physical layer devices, framers and mappers for Ethernet and SONET, plus switch fabrics with high-speed serial links.*

- Physical Layer Devices
- Framers and Mappers
- Switch Fabrics





### Content Triple-Play Applications

AMCC was also recognized by our customers and the industry press for exceptional support and leading edge products. We received the "Supplier of the Year" award from Tellabs. Brocade awarded us for outstanding customer and engineering support. Our 3ware SATA II RAID controller was recognized as the Connectivity Product of the Year by *Storage Magazine*. All of this recognition helps us strengthen existing customer relationships and create new ones.

### Financial

Our fiscal 2007 revenues were \$292.9 million and grew nearly 12% over the prior year. To understand our revenue growth one must understand how we classify our revenues. In fiscal 2006 we began to classify our revenues as "focus" revenues and "non-focus" revenues. Non-focus revenues are generated from the sale of products we continue to support for our customers, but for which we are no longer making R&D investment. Fiscal 2007 non-focus revenues declined to \$38.8 million from \$54.5 million in fiscal 2006 — a decline of 28.9%. These non-focus revenues will continue to decline at an accelerated rate over a relatively short period of time.

We believe that a better indication of our long-term prospects is growth in our focus revenues. Fiscal 2007 focus revenues grew to \$254.1 million from \$207.3 million in fiscal 2006 — a 22.5% increase. I am particularly proud of the fact that we were able to take a large portion of this revenue growth straight to the bottom line. This bodes well for us once revenue growth returns.

Our fiscal 2007 non-GAAP net income increased to \$30.3 million from \$17.9 million in fiscal 2006 — an increase of 69%. We accomplished this growth despite the negative impact on our revenues from business

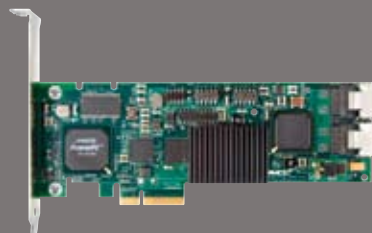
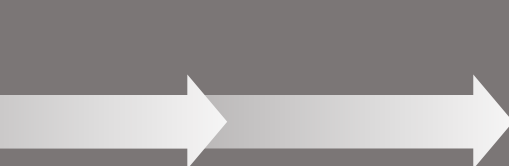
combinations of equipment vendors and carriers as well as from industry-wide inventory corrections that began in the second half of our fiscal year. Unfortunately, these circumstances continued to negatively impact our business as we entered the first quarter of fiscal 2008.

### Looking Forward

Our strategy is to focus on large markets in transition where we have an opportunity to leverage our core technology strengths and gain market share. This strategy positions our Company to deliver 20% top line growth and 20% pre-tax profitability. Our entire organization is focused on delivering to this goal. We made progress towards this goal in fiscal 2007 despite the difficult business conditions in the second half of the fiscal year. We expect these conditions will persist during the first half of fiscal 2008 with improvement in the second half. While these industry conditions have hampered and delayed our ability to deliver to the 20/20 goal, our design win traction remains stronger than ever. I expect that these design wins combined with several planned new product introductions will lead us out of this setback as we exit fiscal 2008. Our overall strategy and execution plans will continue to be to drive higher growth and profitability for the Company.

Sincerely,

Kambiz Hooshmand  
President & CEO  
AMCC



### Store

3ware high-performance SATA II RAID controller cards and PowerPC processors optimized for storage applications.

- SATA II RAID Controllers
- ATA RAID Controllers
- Storage Processors

	FY05	FY06	FY07
<b>Annual Revenue (\$ in Millions)</b>	\$253.8	\$261.8	\$292.9

## Reconciliation of GAAP Operating Loss to Non-GAAP Operating Income (Loss)

\$ in Millions	FY05	FY06	FY07
GAAP Operating Loss	\$(143.2)	\$(164.9)	\$(37.2)
Adjustments to reconcile GAAP operating loss to non-GAAP operating income (loss):			
Stock-based compensation charges	9.3	6.6	10.3
Amortization / impairments of purchased intangibles	59.8	22.2	24.8
Impairment of goodwill	-	131.2	-
In-process R&D charge	13.4	-	13.3
Restructuring charges	9.6	12.6	1.3
Litigation settlement, net	29.2	-	-
Expenses related to stock option investigation	-	-	5.3
Total adjustments to reconcile GAAP operating loss to non-GAAP operating income (loss)	121.3	172.6	55.0
Non-GAAP Operating Income (Loss)	\$(21.9)	\$7.7	\$17.9
Non-GAAP Operating Margin as a Percentage of Revenue	-8.6%	2.9%	6.1%

## Reconciliation of GAAP Net Loss to Non-GAAP Net Income (Loss)

\$ in Millions	FY05	FY06	FY07
GAAP Net Loss	\$(127.4)	\$(148.4)	\$(24.2)
Adjustments to reconcile GAAP net loss to non-GAAP net income (loss) (see detail above)	121.3	172.6	55.0
Gains on sales of certain assets	-	(0.7)	-
Income tax adjustments to reconcile GAAP net loss to non-GAAP net income (loss)	3.6	(5.7)	(0.5)
Total adjustments to reconcile GAAP net loss to non-GAAP net income (loss)	124.9	166.3	54.5
Non-GAAP Net Income (Loss)	\$(2.5)	\$17.9	\$30.3
Non-GAAP Net Income (Loss) as a Percentage of Revenue	-1.0%	6.8%	10.3%

## Selected Balance Sheet Items and Other Information:

\$ and Shares in Millions	FY05	FY06	FY07
Cash, cash equivalents and short-term investments	\$423.4	\$335.7	\$284.5
Days sales outstanding at year end	40	35	42
Inventory turns	9.3	5.7	5.0
Purchase of property, equipment and other assets	\$27.5	\$7.9	\$6.7
Headcount at year end	755	600	619
Annual revenue per employee (based on year end headcount)	\$0.336	\$0.436	\$0.473
Shares outstanding at year end	308.3	295.4	283.0

AMCC's long-term financial goal is to achieve 20% annual revenue growth and 20% non-GAAP pre-tax profit (measured as a percentage of revenue).

### Forward Looking Statements

This annual report contains forward-looking statements, including statements concerning the anticipated future direction of the network, storage and other markets that AMCC serves, the resulting opportunities for AMCC, AMCC's strategy, plans, goals and expectations, including its targets for revenues and operating margin, and anticipated benefits from AMCC's initiatives. These forward-looking statements are only predictions based on current information and expectations and are subject to risks and uncertainties, such as those associated with customer demand for AMCC's products, which in turn is driven by the demand for AMCC's customers' products; the businesses of AMCC's major customers; the concentration of AMCC's business on and its revenue with its major customers; reductions, rescheduling and cancellation of orders by AMCC's customers; successful and timely development of new products by AMCC and its customers; AMCC's manufacturing capacity and execution; and general economic conditions in the United States and around the world. More information about these and other factors that could affect AMCC's business and financial results is included in the "Risk Factors" set forth in the annual report on Form 10-K and in AMCC's other filings with the Securities and Exchange Commission from time to time. As a result of such factors, AMCC's actual business performance and financial results could differ materially from what is set forth in the forward-looking statements. AMCC undertakes no duty to update the forward-looking statements contained in this annual report.

### Board of Directors

**Cesar Cesaratto (1), (3c), (i)**  
Chairman of the Board  
Applied Micro Circuits Corporation  
Private Technology Investor

**Kambiz Y. Hooshmand (4c)**  
President and Chief Executive Officer  
Applied Micro Circuits Corporation

**Donald Colvin (2), (i)**  
Executive Vice President  
Chief Financial Officer  
ON Semiconductor

**Niel Ransom (1), (4), (i)**  
Former Chief Technology Officer  
Alcatel

**Fred Shlapak (2), (4), (i)**  
Former President and  
Chief Executive Officer  
Semiconductor Products Sector  
Motorola Corporation

**Arthur B. Stabenow (1c), (2), (3), (i)**  
Former Chairman, President and  
Chief Executive Officer  
Micro Linear Corporation

**Julie H. Sullivan (2c), (3), (i)**  
Vice President and Provost,  
University of San Diego

### Senior Executive Officers

**Kambiz Y. Hooshmand**  
President and Chief Executive Officer

**Robert G. Gargus**  
Senior Vice President and  
Chief Financial Officer

**Robert H. Bagheri**  
Senior Vice President,  
Operations and Quality

**Daryn Lau**  
Senior Vice President and General  
Manager,  
Integrated Communications  
Products Business

**Barbara Murphy**  
Senior Vice President and  
General Manager,  
Storage Business

### Annual Meeting

The AMCC 2007 annual meeting of stockholders will be held at 10:00 a.m., on August 21, 2007 at the Company's headquarters located at 215 Moffett Park Drive, Sunnyvale, California 94089

### Independent Auditors

Ernst & Young LLP  
4370 La Jolla Village Drive, Suite 500  
San Diego, CA 92122

### Outside Counsel

Cooley Godward Kronish LLP  
4401 Eastgate Mall  
San Diego, CA 92121-1909

### Transfer Agent and Registrar

Questions regarding misplaced stock certificates, change of address or the consolidation of accounts should be addressed to the Company's transfer agent:

Computershare Investor Services, LLC  
Shareholder Communications Team  
2 North LaSalle Street  
Chicago, IL 60602  
Phone: (312) 588-4143  
www.computershare.com  
Email: web.queries@computershare.com

### Corporate Headquarters

Applied Micro Circuits Corporation (AMCC)  
215 Moffett Park Drive  
Sunnyvale, California 94089  
Phone: (408) 542-8600  
Fax: (408) 542-8601

### Investor Information

Exchange: Nasdaq GS Stock Market  
Symbol: AMCC

### Company Inquiries

Applied Micro Circuits Corporation welcomes inquiries from its stockholders and other interested investors. For additional copies of this report, or other information, please contact:

AMCC  
Scott Dawson  
Vice President, Treasury and  
Investor Relations  
6290 Sequence Drive  
San Diego, CA 92121-4358  
Phone: (858) 535-4217

- (1) Member of the Compensation Committee
- (2) Member of the Audit Committee
- (3) Member of the Governance and Nominating Committee
- (4) Member of the Technical Advisory Board Committee
- (c) Chairperson
- (i) Independent Director

