Avago Technologies LTD
Form 10-Q
June 10, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(MARK ONE)

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

For the quarterly period ended May 3, 2015

OR

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

For the transition period from to

Commission File Number: 001-34428

Avago Technologies Limited
(Exact Name of Registrant as Specified in Its Charter)

Singapore	98-0682363
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1 Yishun Avenue 7 Singapore 768923	N/A
(Address of Principal Executive Offices)	(Zip Code)

(65) 6755-7888
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer R	Accelerated filer £	Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

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

As of May 29, 2015 there were 259,729,700 of our ordinary shares, no par value per share, outstanding.

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AVAGO TECHNOLOGIES LIMITED
Quarterly Report on Form 10-Q
For the Quarterly Period Ended May 3, 2015

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements — Unaudited

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

	May 3, 2015	November 2, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$2,508	$1,604
Trade accounts receivable, net	758	782
Inventory	490	519
Other current assets	316	302
Assets held-for-sale	4	628
Total current assets	4,076	3,835
Property, plant and equipment, net	1,344	1,158
Goodwill	1,596	1,596
Intangible assets, net	3,280	3,617
Other long-term assets	236	285
Total assets	$10,532	$10,491
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$501	$515
Employee compensation and benefits	181	219
Other current liabilities	178	236
Current portion of long-term debt	46	46
Total current liabilities	906	1,016
Long-term liabilities:		
Convertible notes payable to related party	926	920
Long-term debt	3,926	4,543
Pension and post-retirement benefit obligations	481	506
Other long-term liabilities	232	263
Total liabilities	6,471	7,248
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Ordinary shares, no par value; 259,521,268 shares and 254,330,630 shares issued and outstanding on May 3, 2015 and November 2, 2014, respectively	2,319	2,009
Retained earnings	1,791	1,284
Accumulated other comprehensive loss	(49)	(50)
Total shareholders' equity	4,061	3,243
Total liabilities and shareholders' equity	$10,532	$10,491

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

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
Net revenue	$1,614	$701	$3,249	$1,410
Cost of products sold:				
Cost of products sold	654	326	1,348	673
Amortization of intangible assets	113	18	226	36
Restructuring charges	1	—	3	5
Total cost of products sold	768	344	1,577	714
Gross margin	846	357	1,672	696
Research and development	251	114	486	221
Selling, general and administrative	108	67	225	141
Amortization of intangible assets	59	8	118	15
Restructuring charges	10	8	24	20
Total operating expenses	428	197	853	397
Operating income	418	160	819	299
Interest expense	(53)	(1)	(107)	(1)
Other income (expense), net	(1)	—	3	—
Income from continuing operations before income taxes	364	159	715	298
Provision for income taxes	25	1	38	6
Income from continuing operations	339	158	677	292
Income from discontinued operations (including a gain on disposal of $14 million for the two fiscal quarters ended May 3, 2015), net of income taxes	5	—	18	—
Net income	$344	$158	$695	$292
Basic income per share:				
Income per share from continuing operations	$1.31	$0.63	$2.63	$1.17
Income per share from discontinued operations	$0.02	$—	$0.07	$—
Net income per share	$1.33	$0.63	$2.70	$1.17
Diluted income per share:				
Income per share from continuing operations	$1.19	$0.61	$2.41	$1.14
Income per share from discontinued operations	$0.02	$—	$0.06	$—
Net income per share	$1.21	$0.61	$2.47	$1.14
Weighted-average shares:				
Basic	258	251	257	250
Diluted	284	258	281	256
Cash dividends declared and paid per share	$0.38	$0.27	$0.73	$0.52

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

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AVAGO TECHNOLOGIES LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME — UNAUDITED
(in millions)

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
Net income	$344	$158	$695	$292
Other comprehensive income (loss), net of tax:				
Unrealized gains and amendment on retirement-related benefit plans	—	—	—	2
Reclassification to net income	—	—	1	(3)
Other comprehensive income (loss)	—	—	1	(1)
Comprehensive income	$344	$158	$696	$291

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

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

	Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014
Cash flows from operating activities:		
Net income	$695	$292
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	456	118
Amortization of debt issuance costs and accretion of debt discount	14	—
Share-based compensation	106	54
Tax benefits from share-based compensation	73	12
Excess tax benefits from share-based compensation	(70)	(11)
Gain on sale of business	(14)	—
Deferred taxes	(2)	(2)
Other	24	(3)
Changes in assets and liabilities, net of acquisitions and disposals:		
Trade accounts receivable, net	24	99
Inventory	43	(16)
Accounts payable	(23)	(16)
Employee compensation and benefits	(41)	(12)
Other current assets and current liabilities	(91)	(11)
Other long-term assets and long-term liabilities	(50)	(24)
Net cash provided by operating activities	1,144	480
Cash flows from investing activities:		
Proceeds from sale of business	650	—
Purchases of property, plant and equipment	(339)	(125)
Proceeds from disposal of property, plant and equipment	63	—
Proceeds from sale of investments	—	14
Purchases of investments	(9)	—
Net cash provided by (used in) investing activities	365	(111)
Cash flows from financing activities:		
Debt repayments	(617)	—
Issuance of ordinary shares	130	53
Repurchases of ordinary shares	—	(12)
Excess tax benefits from share-based compensation	70	11
Dividend payments to shareholders	(188)	(130)
Proceeds from government grants	—	2
Net cash used in financing activities	(605)	(76)
Net increase in cash and cash equivalents	904	293
Cash and cash equivalents at the beginning of period	1,604	985
Cash and cash equivalents at end of period	$2,508	$1,278

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

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AVAGO TECHNOLOGIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Overview, Basis of Presentation and Significant Accounting Policies

Overview

Avago Technologies Limited, or the "Company", was organized under the laws of the Republic of Singapore in August 2005. We are a designer, developer and global supplier of a broad range of semiconductor devices with a focus on analog III-V based products and complex digital and mixed signal complementary metal oxide semiconductor based devices. We have a history of innovation and offer thousands of products that are used in end products, such as smartphones, hard disk drives, computer servers, consumer appliances, data networking and telecommunications equipment, enterprise storage and servers, and factory automation and industrial equipment. We have four reportable segments: wireless communications, enterprise storage, wired infrastructure and industrial & other, which align with our target markets.

We operate on a 52- or 53-week fiscal year ending on the Sunday closest to October 31. Our fiscal year ending November 1, 2015, or fiscal year 2015, is a 52-week fiscal year. The first quarter of our fiscal year 2015 ended on February 1, 2015, the second quarter ended on May 3, 2015 and the third quarter ends on August 2, 2015. Our fiscal year ended November 2, 2014, or fiscal year 2014, was also a 52-week fiscal year.

References herein to "the Company", "we", "our", "us" and "Avago" are to Avago Technologies Limited and its consolidated subsidiaries, unless otherwise specified or the context otherwise requires.

Basis of Presentation

On November 18, 2014, we completed the sale of the LSI Corporation, or LSI, Axxia Networking Business and related assets, or the Axxia Business, for $650 million to Intel Corporation, or Intel. Refer to Note 12. "Discontinued Operations" for more information.

The accompanying unaudited condensed consolidated financial statements include the accounts of Avago Technologies Limited and its wholly owned subsidiaries and have been prepared by us in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial information. This financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary for a fair statement of the results for the periods presented. The November 2, 2014 condensed consolidated balance sheet data were derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for fiscal year 2014, or 2014 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, or SEC, but do not include all disclosures required by GAAP. Intercompany transactions and balances have been eliminated in consolidation.

The operating results for the fiscal quarter and two fiscal quarters ended May 3, 2015 are not necessarily indicative of the results that may be expected for fiscal year 2015, or for any other future period.

Significant Accounting Policies

Use of estimates. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Concentrations of credit risk and significant customers. Our cash, cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents may be redeemable upon demand and are maintained with several financial institutions that management believes are of high credit quality and therefore bear minimal credit risk. We seek to mitigate our credit risks by spreading such risks across multiple counterparties and monitoring the risk profile of these counterparties. Our accounts receivable are derived from revenue earned from customers located around the world. We mitigate collection risks from our customers by performing regular credit evaluations of our customers' financial condition, and require collateral, such as letters of credit and bank guarantees, in certain circumstances.

We sell our products primarily through our direct sales force and distributors, and to a small extent, through manufacturers' representatives. One direct customer accounted for 29% and 30% of our net accounts receivable balance at May 3, 2015 and November 2, 2014, respectively. During the fiscal quarter and two fiscal quarters ended

May 3, 2015, one direct customer represented 21% and 24% of our net revenue, respectively. During the fiscal quarter ended May 4, 2014, two direct customers represented 14% and 13% of our net revenue, respectively. During the two fiscal quarters ended May 4, 2014, two direct customers represented 20% and 10% of our net revenue, respectively. The majority of the revenues from these customers were included in our wireless communications segment.

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

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The changes in accrued warranty were not material for the fiscal quarter or two fiscal quarters ended May 3, 2015 or May 4, 2014.

Net income per share. Basic net income per share is computed using the weighted-average number of ordinary shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of ordinary shares and potentially dilutive share equivalents outstanding during the period. Diluted shares outstanding include the dilutive effect of in-the-money options, restricted share units, or RSUs, employee share purchase rights under the Avago Technologies Limited Employee Share Purchase Plan, or ESPP, (together referred to as equity awards) and the 2.0% Convertible Senior Notes due 2021 issued by Avago Technologies Limited, or the Convertible Notes. The dilutive effect of equity awards is calculated based on the average share price for each fiscal period, using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising share options and to purchase shares under the ESPP, the amount of compensation cost for future service that we have not yet recognized, and the amount of tax benefits that would be recognized when equity awards become deductible for income tax purposes are collectively assumed to be used to repurchase ordinary shares. The dilutive effect of the Convertible Notes is calculated using the treasury stock method. For the purpose of calculating their dilutive effect, we assumed that the Convertible Notes will be entirely settled in cash, which warrants use of the treasury stock method. In making this assumption, we considered our existing cash balance and our ability to borrow and repay our existing term loan facility under a credit agreement that Avago Technologies Finance Pte. Ltd and certain subsidiaries of the Company entered into with a syndicate of financial institutions, or the 2014 Credit Agreement. The treasury stock method assumes that the carrying value of the Convertible Notes represents proceeds, since settlement of the Convertible Notes tendered for conversion may be settled with cash, ordinary shares or a combination of both at the Company's option. The resulting incremental ordinary shares attributable to the assumed conversion of the Convertible Notes are a component of diluted shares.

There were no significant antidilutive equity awards for the fiscal quarter or two fiscal quarters ended May 3, 2015 or the fiscal quarter or two fiscal quarters ended May 4, 2014.

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
Net income (Numerator):				
Income from continuing operations	$339	$158	$677	$292
Income from discontinued operations	5	—	18	—
Net income	$344	$158	$695	$292
Shares (Denominator):				
Basic weighted-average ordinary shares outstanding	258	251	257	250
Add incremental shares for:				
Dilutive effect of share options, RSUs and ESPP rights	13	7	12	6
Dilutive effect of Convertible Notes	13	—	12	—
Shares used in diluted computation	284	258	281	256
Basic income per share:				
Income per share from continuing operations	$1.31	$0.63	$2.63	$1.17
Income per share from discontinued operations	$0.02	$—	$0.07	$—
Net income per share	$1.33	$0.63	$2.70	$1.17
Diluted income per share:				
Income per share from continuing operations	$1.19	$0.61	$2.41	$1.14
Income per share from discontinued operations	$0.02	$—	$0.06	$—
Net income per share	$1.21	$0.61	$2.47	$1.14

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Supplemental cash flow disclosures. At May 3, 2015 and November 2, 2014, we had $49 million and $45 million, respectively, of unpaid purchases of property, plant, and equipment included in accounts payable and other current liabilities. Amounts reported as unpaid purchases will be recorded as cash outflows from investing activities for purchases of property, plant, and equipment in the unaudited condensed consolidated statements of cash flows in the period in which they are paid.

Recently Adopted Accounting Guidance

In November 2014, the Financial Accounting Standards Board, or FASB, issued authoritative guidance that provides guidance on whether and at what threshold an acquired business or not-for-profit organization can apply pushdown accounting. This guidance provides an option to apply pushdown accounting in the separate financial statements of an acquired entity upon the occurrence of an event in which an acquirer obtains control of the acquired entity. The guidance was effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The adoption of this guidance did not impact our consolidated financial statements.

In July 2013, the FASB issued an amendment to the accounting guidance related to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The guidance requires an unrecognized tax benefit to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss or a tax credit carryforward exists and certain criteria are met. This guidance was effective for the first quarter of our fiscal year 2015. The adoption of this guidance did not have a significant impact on our consolidated balance sheets.

Recent Accounting Guidance Not Yet Adopted

In May 2015, the FASB issued an amendment to the accounting guidance related to pushdown accounting. The amendment removed the Securities and Exchange Commission staff guidance on pushdown accounting from the Accounting Standards Codification. The removal of this guidance will not impact our consolidated financial statements.

In April 2015, the FASB issued an amendment to the accounting guidance related to the financial statement presentation of debt issuance costs. The new guidance is required to be applied retrospectively to each prior reporting period presented. The guidance requires debt issuance costs to be presented on the balance sheet as a direct reduction to the carrying amount of debt, consistent with debt discounts or premiums. This guidance will be effective for the first quarter of our fiscal year 2017, with early application permitted. The adoption of this guidance will not have a material effect on our consolidated balance sheet presentation.

In April 2015, the FASB issued an amendment to the accounting guidance that provides a practical expedient to companies whose fiscal year end does not coincide with a calendar month-end. The practical expedient permits the entity to measure defined benefit plan assets and obligations using the calendar month-end that is closest to the entity’s fiscal year-end and apply the practical expedient consistently from year to year. This guidance will be effective prospectively for the first quarter of our fiscal year 2017, with early application permitted. We are currently evaluating the impact that this guidance will have on our financial condition and results of operations.

In February 2015, the FASB issued an amendment to the accounting guidance related to the criteria for consolidation of certain legal entities. The guidance will be effective for the first quarter of our fiscal year 2018, with early adoption permitted. The guidance requires either retrospective application to each prior period presented or retrospective application with a cumulative adjustment to retained earnings as of the adoption date. We are currently evaluating the impact that this guidance will have on our financial condition and results of operations.

In January 2015, the FASB issued an amendment to the accounting guidance related to the financial statement presentation of extraordinary and unusual items. The guidance eliminates the requirement to classify and present extraordinary items separately in the results of operations. This guidance will be effective prospectively for the first quarter of our fiscal year 2016, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

In June 2014, the FASB issued authoritative guidance that resolves the diverse accounting treatment for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. The guidance applies to entities that grant their employees share-based awards that include a performance target that could be achieved after the requisite service period. The guidance explicitly requires that a performance target of this nature be treated as a performance condition and should not be reflected in estimating the grant-date fair value of the award. This guidance will be effective for the first quarter of our fiscal year 2016. We are currently evaluating the impact that this guidance will have on our financial condition and results of operations.
In May 2014, the FASB issued authoritative guidance that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The

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guidance is effective for the first quarter of our fiscal year 2018. Early adoption is not permitted. The new guidance is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method and are currently evaluating the impact of this guidance on our consolidated financial statements.

In April 2014, the FASB issued authoritative guidance that raises the threshold for a disposal transaction to qualify as a discontinued operation and requires additional disclosures about discontinued operations and disposals of individually significant components that do not qualify as discontinued operations. This guidance will be effective for the first quarter of our fiscal year 2016, with early adoption permitted.

2. Inventory

Inventory consists of the following (in millions):

	May 3, 2015	November 2, 2014
Finished goods	$162	$185
Work-in-process	243	250
Raw materials	85	84
Total inventory	$490	$519

3. Intangible Assets

Intangible assets consist of the following (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
As of May 3, 2015:			
Purchased technology	$2,651	$(908)	$1,743
Customer and distributor relationships	1,570	(358)	1,212
Other [1]	282	(111)	171
Intangible assets subject to amortization	4,503	(1,377)	3,126
In-process research and development	154	—	154
Total	$4,657	$(1,377)	$3,280
As of November 2, 2014:			
Purchased technology	$2,651	$(682)	$1,969
Customer and distributor relationships	1,570	(264)	1,306
Other [1]	275	(87)	188
Intangible assets subject to amortization	4,496	(1,033)	3,463
In-process research and development	154	—	154
Total	$4,650	$(1,033)	$3,617

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[1] Primarily represents trademarks and customer order backlog.

Amortization expense of intangible assets for the periods presented is as follows (in millions):

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
Cost of products sold	$113	$18	$226	$36
Operating expenses	59	8	118	15
Total amortization of intangible assets	$172	$26	$344	$51

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Based on the amount of intangible assets subject to amortization at May 3, 2015, the expected amortization expense for each of the next five fiscal years and thereafter is as follows (in millions):

Fiscal Year	
2015 (remainder)	$344
2016	626
2017	559
2018	437
2019	373
2020	313
Thereafter	474
	$3,126

The weighted-average remaining amortization period for each intangible asset category at May 3, 2015 is as follows (in years):

Amortizable intangible assets:	
Purchased technology	8
Customer and distributor relationships	7
Other	7

4. Retirement Plans and Post-Retirement Benefits

Defined Benefit Plans

As a result of our acquisition of LSI on May 6, 2014, we assumed LSI's defined benefit pension plans, covering certain U.S. and non-U.S. employees, under which we are obligated to make future contributions to fund benefits to participants. The U.S. defined benefit pension plans include a management plan and a represented plan. Benefits under the management plan are provided under either an adjusted career-average-pay program or a cash-balance program. Benefits under the represented plan are based on a dollar-per-month formula. Benefit accruals under the management plan were frozen in 2009. Participants in the adjusted career-average-pay program no longer earn service accruals. Participants in the cash-balance program no longer earn service accruals, but continue to earn 4% interest per year on their cash-balance accounts. There are no active participants under the represented plan. We also assumed a non-qualified supplemental pension plan in the U.S. in the LSI acquisition, which principally provides benefits based on compensation in excess of amounts that can be considered under the management plan. We also assumed pension plans covering certain non-U.S. employees.

Net Periodic Benefit Cost (Income)

The following table summarizes the components of the net periodic benefit cost (income) for the periods presented (in millions):

	Pension Benefits			
	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
Service cost	$1	$—	1	$1
Interest cost	15	1	31	1
Expected return on plan assets	(19)	—	(39)	—
Net actuarial loss and prior service cost	—	—	1	—
Total net periodic benefit cost (income)	$(3)	$1	(6)	$2

During the fiscal quarter and two fiscal quarters ended May 3, 2015, we contributed $10 million and $16 million, respectively, to our defined benefit pension plans. We expect to contribute an additional $46 million to our defined benefit pension plans during the remainder of fiscal year 2015.

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5. Borrowings

Term Loans and Revolving Credit Facility

In connection with our acquisition of LSI on May 6, 2014, we entered into the 2014 Credit Agreement. The 2014 Credit Agreement provides for our term loan facility of $4.6 billion, or Term Loans, and our senior secured, revolving credit facility in an aggregate principal amount of up to $500 million, or the 2014 Revolving Credit Facility. Additionally, it provides for swingline loans of up to $75 million and the issuance of letters of credit of up to $100 million, both of which reduce the amount that may be borrowed under the 2014 Revolving Credit Facility. The Term Loans have a term of seven years and as of May 3, 2015, had an effective interest rate of 4.15%. In March 2015, we made a $593 million principal prepayment on the Term Loans and, as a result, we wrote off $13 million of debt issuance costs, which was reported as a component of other income (expense), net in the unaudited condensed consolidated statements of operations. As of May 3, 2015 and November 2, 2014, the outstanding balance of Term Loans was $4.0 billion and $4.6 billion, respectively. We were in compliance with the covenants described in the 2014 Credit Agreement as of May 3, 2015.

The 2014 Revolving Credit Facility has a term of five years. As of May 3, 2015 and November 2, 2014, there were no borrowings outstanding under the 2014 Revolving Credit Facility and letters of credit outstanding were not material. Unamortized debt issuance costs associated with the Term Loans and 2014 Revolving Credit Facility as of May 3, 2015 and November 2, 2014, were $94 million and $115 million, respectively, and are included in other current assets and other long-term assets on the unaudited condensed consolidated balance sheets. Amortization of debt issuance costs related to the Term Loans and 2014 Revolving Credit Facility was $4 million and $8 million for the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, and was reported as a component of interest expense in the unaudited condensed consolidated statements of operations.

Convertible Senior Notes

In connection with our acquisition of LSI on May 6, 2014, the Company completed the private placement of $1 billion in aggregate principal amount of its Convertible Notes to two entities affiliated with Silver Lake Partners, or the Purchasers. The Convertible Notes are the Company’s unsecured senior obligations. The Convertible Notes will pay interest semi-annually at a rate of 2.0% per year, payable in arrears on May 1 and November 1 of each year and will mature on August 15, 2021, unless repurchased, redeemed or converted in accordance with their terms prior to such date. Subject to any limitations set forth in the indenture dated as of May 6, 2014, between the Company and U.S. Bank National Association relating to the Convertible Notes, or the Indenture, the Convertible Notes may be converted as described below. The Convertible Notes are convertible at any time until the close of business on the scheduled trading day immediately preceding the maturity date. Upon conversion, the Convertible Notes may be settled in our ordinary shares, cash or a combination of cash and ordinary shares, at the Company’s option. The Convertible Notes were convertible at an initial conversion rate of 20.8160 ordinary shares per $1,000 principal amount of the Convertible Notes, which was equivalent to an initial conversion price of approximately $48.04 per ordinary share. The conversion rate is subject to adjustment under the terms of the Convertible Notes, including as a result of cash dividends on our ordinary shares in excess of $0.27 per share. During the second half of fiscal year 2014 and the first two quarters of fiscal year 2015, quarterly dividends paid on our ordinary shares exceeded the dividend threshold for conversion price adjustment. As a result, as of May 3, 2015, the conversion rate had been adjusted to 20.8685 ordinary shares per $1,000 principal amount of the Convertible Notes, which is equivalent to a conversion price of approximately $47.92 per ordinary share. As of May 3, 2015, the “if-converted” value of the Convertible Notes exceeded the principal amount by $1.6 billion.

In accordance with the authoritative accounting guidance, we classified $85 million, representing a portion of the proceeds from the Convertible Notes, as ordinary shares within shareholders' equity. The $915 million carrying value of the long-term debt as of May 6, 2014 was calculated as the present value of its contractual payment obligations using a discount rate of 3.32%. The difference between the principal amount of the Convertible Notes and the carrying value of the long-term debt represents a debt discount on the issuance date, which is accreted as interest expense using the effective interest method through the contractual maturity date.

Subsequent to the fiscal quarter ended May 3, 2015, the Purchasers of all of the outstanding Convertible Notes submitted to the Company conversion notices exercising their right to convert all of the Convertible Notes that they

hold, or the Conversion. The Company has informed the Purchasers that it intends to satisfy its conversion obligation by paying cash equal to the $1 billion principal amount of the Convertible Notes and delivering ordinary shares of the Company with respect to the conversion value in excess of that amount, or the Conversion Obligation, in each case pursuant to the terms of the Indenture. See Note 13. "Subsequent Events" for more information on the conversion of the Convertible Notes.

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The carrying value of the components of the Convertible Notes is as follows (in millions):

	May 3, 2015	November 2, 2014
Convertible notes liability component:		
Principal balance	$1,000	$1,000
Less: debt discount	74	80
Net carrying amount	$926	$920
Equity component carrying amount	$85	$85

The following table sets forth interest expense recognized related to Convertible Notes during the fiscal quarter and two fiscal quarters ended May 3, 2015 (in millions):

	Fiscal Quarter Ended May 3, 2015	Two Fiscal Quarters Ended May 3, 2015
Contractual coupon interest	$5	$10
Accretion of debt discount	3	6
	$8	$16

At May 3, 2015, the outstanding principal amount of the Convertible Notes was $1 billion. The estimated fair value of the Convertible Notes as of May 3, 2015 and November 2, 2014, was $924 million and $871 million, respectively, which was determined based on inputs that are observable in the market under Level 2 of the fair value hierarchy. At May 3, 2015, we were in compliance with the covenants relating to the Convertible Notes.

At May 3, 2015, future scheduled principal payments for our outstanding Term Loans and the Convertible Notes, including the current portion, are summarized as follows (in millions):

Fiscal Year	
2015 (remainder)	$23
2016	46
2017	46
2018	46
2019	46
2020	46
Thereafter	4,719
Total	$4,972

6. Shareholders’ Equity

Share Repurchase Program

No shares were repurchased during the two fiscal quarters ended May 3, 2015 under the 2014 share repurchase mandate. The 2014 share repurchase mandate expired on April 8, 2015. At our 2015 annual general meeting of shareholders on April 8, 2015, shareholders approved our 2015 share purchase mandate pursuant to which we are authorized, upon the approval of the Board, to repurchase up to approximately 26 million of our ordinary shares in open market transactions or pursuant to equal access schemes, up to the date on which our 2016 annual general meeting of shareholders is held or required by law to be held, or the 2015 share purchase mandate. As of the date of this Quarterly Report on Form 10-Q, the Board had not approved any repurchases of our ordinary shares pursuant to the 2015 share purchase mandate.

Dividends

We paid cash dividends of $0.38 and $0.27 per ordinary share, or $99 million and $68 million, during the fiscal quarters ended May 3, 2015 and May 4, 2014, respectively. We paid aggregate cash dividends of $188 million and $130 million during the two fiscal quarters ended May 3, 2015 and May 4, 2014, respectively.

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Share-Based Compensation Expense

The following table summarizes share-based compensation expense reported in continuing operations related to share-based awards granted to employees, directors, and non-employees for the periods presented (in millions):

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
Cost of products sold	$6	$3	$12	$6
Research and development	27	10	46	18
Selling, general and administrative	24	17	48	30
Total share-based compensation expense	$57	$30	$106	$54

The fair values of our time-based options and ESPP purchase rights were estimated using the Black-Scholes option pricing model. Certain equity awards granted in the fiscal quarter and two fiscal quarters ended May 3, 2015 and May 4, 2014, respectively, included both service and market conditions. The fair value of market-based awards was estimated using Monte Carlo simulation techniques. The fair value of RSUs was estimated using the closing market price of our ordinary shares on the date of grant, reduced by the present value of dividends expected to be paid on our ordinary shares prior to vesting.

The weighted-average assumptions utilized for our time-based options, ESPP purchase rights and market-based awards granted for the periods presented are shown in the tables below.

	Time-Based Options							
	Fiscal Quarter Ended				Two Fiscal Quarters Ended			
	May 3, 2015		May 4, 2014		May 3, 2015		May 4, 2014	
Risk-free interest rate	1.3	%	1.3	%	1.3	%	1.3	%
Dividend yield	1.3	%	1.7	%	1.4	%	1.8	%
Volatility	35.0	%	35.0	%	35.0	%	35.0	%
Expected term (in years)	4.0		4.3		4.0		4.2	

	ESPP Purchase Rights							
	Fiscal Quarter Ended				Two Fiscal Quarters Ended			
	May 3, 2015		May 4, 2014		May 3, 2015		May 4, 2014	
Risk-free interest rate	0.2	%	0.1	%	0.1	%	0.1	%
Dividend yield	1.2	%	1.7	%	1.3	%	2.0	%
Volatility	37.0	%	31.0	%	32.0	%	34.0	%
Expected term (in years)	0.5		0.5		0.5		0.5	

	Market-Based Awards							
	Fiscal Quarter Ended				Two Fiscal Quarters Ended			
	May 3, 2015		May 4, 2014		May 3, 2015		May 4, 2014	
Risk-free interest rate	1.3	%	2.3	%	1.4	%	2.3	%
Dividend yield	1.2	%	1.7	%	1.2	%	1.8	%
Volatility	35.0	%	45.0	%	36.0	%	45.0	%
Expected term (in years)	4.0		7.0		4.5		7.0	

The dividend yields for the fiscal quarters and two fiscal quarters ended May 3, 2015 and May 4, 2014 were based on the dividend yield as of the respective award grant dates. For the fiscal quarters and two fiscal quarters ended May 3, 2015 and May 4, 2014, expected volatility for time-based and market-based options were based on our own historical share price volatility or combining historical volatility of guideline publicly-traded companies and our own historical share price volatility over the period commensurate with the expected life of the awards and the implied volatility from our own traded ordinary shares with a term of 180 days measured at a specific date.

The risk-free interest rate was derived from the average U.S. Treasury Strips rate during the period, which approximated the rate in effect at the time of grant.

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For the fiscal quarters and two fiscal quarters ended May 3, 2015 and May 4, 2014, the expected term for time-based options was based on a weighted-average combining the average life of options that have already been exercised or cancelled with the expected life of all unexercised options. The expected life for unexercised options was calculated assuming that the options will be exercised at the midpoint of the vesting date (if unvested) or the valuation date (if vested) and the full contractual term.

The expected term of market-based options valued using Monte Carlo simulation techniques was based upon the vesting dates forecasted by the simulation and then assuming that options which vest, and for which the market condition has been satisfied, are exercised at the midpoint between the forecasted vesting date and their expiration.

The expected term of market-based RSUs valued using Monte Carlo simulation techniques was commensurate with the awards' contractual terms.

The total unrecognized compensation cost of time and market-based options granted but not yet vested as of May 3, 2015 was $189 million, which is expected to be recognized over the remaining weighted-average service period of 2.7 years.

Total unrecognized compensation cost related to the ESPP purchase rights as of May 3, 2015 was $3 million and is expected to be recognized over the remaining portion of the current offering period under the ESPP, which ends on September 14, 2015. Total unrecognized compensation cost related to unvested RSUs and unvested market-based RSUs as of May 3, 2015 was $406 million, which is expected to be recognized over the remaining weighted-average service period of 3.5 years.

Equity Incentive Award Plans

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

	Option Awards Outstanding			
	Number Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance as of November 2, 2014	29	$44.97		
Granted	1	$96.52		
Exercised	(4)	$31.20		
Cancelled	(1)	$65.27		
Balance as of May 3, 2015	25	$47.33	5.08	$1,843
Vested as of May 3, 2015	9	$32.88	4.31	$821
Fully vested and expected to vest as of May 3, 2015	23	$46.86	5.06	$1,780

The total intrinsic values of options exercised during the fiscal quarters ended May 3, 2015 and May 4, 2014 were $202 million and $46 million, respectively. Total intrinsic values of options exercised during the two fiscal quarters ended May 3, 2015 and May 4, 2014 were $334 million and $69 million, respectively.

A summary of RSU activity related to our equity incentive plans is as follows (in millions, except years and per share amounts):

	RSU Awards Outstanding		
	Number Outstanding	Weighted-Average Grant Date Fair Market Value	Weighted-Average Remaining Contractual Life (in years)
Balance as of November 2, 2014	4	$48.82	
Granted	3	$115.77	
Vested	(1)	$53.12	

Forfeited	(1)	$65.64	
Balance as of May 3, 2015	5	$89.51	2.04

Employee Share Purchase Plan

A total of 0.1 million shares were issued under the ESPP during each of the fiscal quarters and two fiscal quarters ended May 3, 2015 and May 4, 2014.

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7. Income Taxes
For the fiscal quarter and two fiscal quarters ended May 3, 2015, we recorded an income tax provision of $25 million and $38 million, respectively, compared to an income tax provision of $1 million and $6 million for the fiscal quarter and two fiscal quarters ended May 4, 2014, respectively. The increase in income tax provision was largely due to the increase in profit before tax.
The income tax provision for the fiscal quarter and two fiscal quarters ended May 3, 2015 included tax benefits of $5 million and $9 million, respectively, from the net recognition of previously unrecognized tax benefits, compared to $10 million and $14 million for the fiscal quarter and two fiscal quarters ended May 4, 2014, respectively, as a result of the expiration of the statute of limitations for certain audit periods. The income tax provision for the two fiscal quarters ended May 3, 2015 also included a discrete benefit of $15 million from the retroactive reinstatement of the U.S. Federal Research and Development tax credit from January 1, 2014 to December 31, 2014, with the enactment of the Tax Increase Prevention Act of 2014.
Unrecognized Tax Benefits
We are subject to Singapore income tax examinations for the years ended October 31, 2010 and later, and in major jurisdictions outside Singapore for the years ended November 2, 2008 and later. We believe it is possible that we may recognize up to $11 million of our existing unrecognized tax benefits within the next 12 months as a result of lapses of the statute of limitations for certain audit periods.
8. Segment Information
Reportable Segments
During the fourth quarter of fiscal year 2014, we changed our organizational structure resulting in four reportable segments: wireless communications, enterprise storage, wired infrastructure and industrial & other. These segments align with our principal target markets. The segments represent components of the Company for which separate financial information is available that is utilized on a regular basis by the Chief Executive Officer, who has been identified as the Chief Operating Decision Maker, or CODM, as defined by authoritative guidance on segment reporting, in determining how to allocate resources and evaluate performance. The segments are determined based on several factors, including client base, homogeneity of products, technology, delivery channels and similar economic characteristics. The amounts for the fiscal quarter and two fiscal quarters ended May 4, 2014 have been revised to conform to the current year’s presentation.
Wireless Communications. We support the wireless communications industry with a broad variety of radio frequency, or RF, semiconductor devices that amplify, as well as selectively filter, RF signals. In addition to RF devices, we provide a variety of optoelectronic sensors for mobile handset applications.
Enterprise Storage. This segment consists of LSI's storage products and PLX Technology, Inc.'s, or PLX, Peripheral Component Interconnect Express, or PCIe, switches and bridges. LSI's storage products enable secure movement of digital data to and from host machines, such as servers, personal computers and storage systems, to the underlying storage devices, such as hard disk drives, or HDDs, and solid state drives, or SSDs. We provide read channel-based system-on-a-chip, or SoCs, and preamplifiers to HDD original equipment manufacturers, or OEMs. We also provide custom flash controllers to SSD OEMs, and serial attached SCSI and redundant array of independent disks controller and adapter solutions to server and storage system OEMs. PLX's PCIe devices are interconnect semiconductors supporting the PCIe communication standards and are the primary interconnection mechanism inside computing systems.
Wired Infrastructure. In the storage and Ethernet networking markets, we supply transceivers that receive and transmit information along optical fibers. We also supply optical laser and receiver components to the access, metro and long-haul telecommunication markets. For enterprise networking and server input/output applications, we supply high speed serializer/deserializer products integrated into application specific integrated circuits.
Industrial & Other. We provide a broad variety of products for the general industrial and automotive markets. We offer optical isolators, which provide electrical insulation and signal isolation. For industrial motors and robotic motion control, we supply optical encoders, as well as integrated circuits, for the controller and decoder functions. For electronic signs and signals, we supply light-emitting diode assemblies that offer high brightness and stable light output over thousands of hours, enabling us to support traffic signals, large commercial signs and other displays. For

industrial networking, we provide faster optical transceivers using plastic optical fiber that enable quick and interoperable networking and factory automation.

Our CODM assesses the performance of each segment and allocates resources to those segments based on net revenue and operating income and does not evaluate operating segments using discrete asset information. Operating income by segment includes items that are directly attributable to each segment. Operating income by segment also includes shared expenses, such as global operations, including manufacturing support, logistics and quality control, which are allocated primarily based on headcount, expenses associated with our globally integrated support organizations, such as sales and corporate marketing functions, as well as finance, information technology, human resources, legal and related corporate infrastructure costs, along

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with certain benefit related expenses, which are allocated primarily based on a percentage of revenue, and facilities allocated based on square footage.

Unallocated Expenses

Unallocated expenses include amortization of intangible assets, share-based compensation expense, restructuring charges and acquisition-related costs, including charges related to inventory step-up to fair value, which are not used in evaluating the results of, or in allocating resources to, our segments. Acquisition-related costs include transaction costs and any costs directly related to the acquisition and integration of acquired businesses.

Depreciation expense directly attributable to each reportable segment is included in operating income for each segment. However, the CODM does not evaluate depreciation expense by operating segment and, therefore, it is not separately presented. There was no inter-segment revenue for the fiscal quarter or two fiscal quarters ended May 3, 2015 or May 4, 2014. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The following tables present our net revenue and operating income by reportable segment for the periods presented (in millions):

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
Net revenue:				
Wireless communications	$576	$348	$1,240	$697
Enterprise storage	467	—	953	—
Wired infrastructure	382	219	729	447
Industrial & other	189	134	327	266
Operating income:				
Wireless communications	$264	$125	$586	$231
Enterprise storage	177	—	363	—
Wired infrastructure	120	45	215	102
Industrial & other	109	63	165	124
Unallocated expenses	(252)	(73)	(510)	(158)

9. Related Party Transactions

2.0% Convertible Senior Notes due 2021

On December 15, 2013, in connection with our agreement to acquire LSI, the Company entered into a Note Purchase Agreement with Silver Lake Partners IV, L.P, or SLP IV, and Deutsche Bank, A.G., Singapore Branch, as Lead Manager, or the Note Purchase Agreement, in connection with the private placement of the Convertible Notes. SLP IV is an investment fund affiliated with Silver Lake Partners, of which Kenneth Hao, one of our directors, is a Managing Partner and Managing Director. SLP IV's rights and obligations under the Note Purchase Agreement were thereafter assigned to and assumed by the Purchasers. The Company completed the private placement of the Convertible Notes on May 6, 2014 in connection with the acquisition of LSI. Subsequent to the fiscal quarter ended May 3, 2015, the Purchasers submitted to the Company conversion notices exercising their right to convert all of the Convertible Notes that they hold. See Note 13. "Subsequent Events" for more information on the conversion of the Convertible Notes.

In connection with the issuance of the Convertible Notes, the Company and the Purchasers also entered into a Registration Rights Agreement pursuant to which SLP IV has certain registration rights with respect to the Convertible Notes and our ordinary shares issuable upon conversion of the Convertible Notes.

Silicon Manufacturing Partners Pte. Ltd.

As a result of the acquisition of LSI, we acquired a 51% equity interest in Silicon Manufacturing Partners Pte. Ltd., or SMP, a joint venture with GLOBALFOUNDRIES. We have a take-or-pay agreement with SMP under which we have agreed to purchase 51% of the managed wafer capacity from SMP’s IC manufacturing facility and GLOBALFOUNDRIES has agreed to purchase the remaining managed wafer capacity. SMP determines its managed

wafer capacity each year based on forecasts provided by us and GLOBALFOUNDRIES. If we fail to purchase our required commitments, we will be required to pay SMP for the fixed costs associated with the unpurchased wafers. GLOBALFOUNDRIES is similarly obligated with respect to the wafers allotted to it. The agreement may be terminated by either party upon two years written notice. The agreement may also be terminated for material breach, bankruptcy or insolvency.

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Other

During the fiscal quarter and two fiscal quarters ended May 3, 2015 and May 4, 2014, in the ordinary course of business, the Company purchased from, or sold (directly or indirectly) to, several entities for which one of the Company's directors also serves or served as a director, or is otherwise affiliated with, including Alibaba Group Holding Limited, Avaya Inc., Blackline Systems, Inc., Dell Inc., KLA-Tencor Corporation, Kulicke & Soffa Industries, Inc., Smart Modular Technologies, Smart Storage Systems and QLogic Corporation.

Aggregate transactions for the periods presented and balances with our related parties are as follows (in millions):

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
Total net revenue	$48	$—	$91	$—
Total costs and expenses including inventory purchases (1)	$27	$— *	$47	$— *

	May 3, 2015	November 2, 2014
Total receivables	$7	$ 14
Total payables (1)	$8	$ 8
Carrying value of the Convertible Notes and accrued interest	$926	$ 930

* Represents amounts less than $0.5 million.

(1) We purchased $15 million and $30 million of inventory from SMP for the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively. As of May 3, 2015 and November 2, 2014, the amount payable to SMP was $7 million and $8 million, respectively.

10. Commitments and Contingencies

Commitments

The following table summarizes contractual obligations and commitments as of May 3, 2015, that have materially changed from the end of fiscal year 2014 (in millions):

	Total	2015 (remainder)	2016	2017	2018	2019	2020	Thereafter
Debt principal, interest and fees	$6,002	$ 109	$208	$216	$214	$211	$209	$ 4,835
Purchase commitments	$389	$ 385	$4	$—	$—	$—	$—	$ —
Operating lease obligations	$145	$ 14	$21	$16	$14	$11	$8	$ 61

Debt Principal, Interest and Fees. Represents principal, interest and commitment fees payable on borrowings and credit facilities under the 2014 Credit Agreement, and principal and interest payable on the Convertible Notes. Subsequent to the fiscal quarter ended May 3, 2015, the Purchasers submitted to the Company conversion notices exercising their right to convert all of the Convertible Notes that they hold. See Note 13. "Subsequent Events" for more information on the conversion of the Convertible Notes.

Purchase Commitments. Represents unconditional purchase obligations that include agreements to purchase goods or services, primarily inventory, that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. We also make capital expenditures with a variety of vendors in connection with the expansion of our Fort Collins, Colorado, internal fabrication facility. These purchases are typically conducted on a purchase order basis and the amount shown in the table includes $115 million of cancelable and non-cancelable outstanding purchase obligations under such purchase orders as of May 3, 2015.

Under our take-or-pay agreement with SMP, we have agreed to purchase 51% of the managed wafer capacity from SMP’s IC manufacturing facility. If we fail to purchase our required commitments, we will be required to pay SMP for the fixed costs associated with the unpurchased wafers.

Operating Lease Obligations. Represents real property and equipment leased from third parties under non-cancelable operating leases.

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There were no other substantial changes to our contractual commitments during the first two quarters of fiscal year 2015 from those disclosed in our 2014 Annual Report on Form 10-K.

Contingencies

From time to time, we are involved in litigation that we believe is of the type common to companies engaged in our line of business, including commercial disputes, employment issues and disputes involving claims by third parties that our activities infringe their patent, copyright, trademark or other intellectual property rights. Legal proceedings are often complex, may require the expenditure of significant funds and other resources, and the outcome of litigation is inherently uncertain, with material adverse outcomes possible. Intellectual property claims generally involve the demand by a third-party that we cease the manufacture, use or sale of the allegedly infringing products, processes or technologies and/or pay substantial damages or royalties for past, present and future use of the allegedly infringing intellectual property. Claims that our products or processes infringe or misappropriate any third-party intellectual property rights (including claims arising through our contractual indemnification of our customers) often involve highly complex, technical issues, the outcome of which is inherently uncertain. Moreover, from time to time we pursue litigation to assert our intellectual property rights. Regardless of the merit or resolution of any such litigation, complex intellectual property litigation is generally costly and diverts the efforts and attention of our management and technical personnel.

Lawsuits Relating to the Acquisition of Broadcom

Following the announcement of our pending acquisition of Broadcom Corporation, or Broadcom, on May 28, 2015, four putative class action lawsuits were filed in the Superior Court of the State of California, County of Orange as of June 4, 2015 under the following captions: Xu v. Broadcom Corp., et al., Case No. 30-2015-00790689-CU-SL-CXC, filed June 1, 2015; Freed v. Broadcom Corp., et al., Case No. 30-2015-00790699-CU-SL-CXC, filed June 1, 2015; N.J. Building Laborers Statewide Pension Fund v. Samueli, et al., Case No. 00791484-CU-SL-CXC, filed June 4, 2015; and Yiu v. Broadcom Corp., et al., Case No. 00791490-CU-SL-CXC, filed June 4, 2015. A fifth putative class action was filed in the Superior Court of the State of California, County of Santa Clara, captioned Jew v. Broadcom Corp., et al., Case No. 115-CV-281353, filed June 2, 2015. The complaints name as defendants, among other parties, Avago, Broadcom, and members of Broadcom’s board of directors, and allege, among other claims, that members of Broadcom’s board breached their fiduciary duties by pursuing a flawed sale process and failing to obtain adequate consideration. The complaints further allege that Avago, among other parties, aided and abetted these purported breaches of fiduciary duty. The complaints seek, among other things, an order enjoining or rescinding the proposed acquisition and an award of attorney’s and other fees and costs. We believe these claims are entirely without merit and intend to vigorously defend these actions.

Lawsuits Relating to the Acquisition of Emulex

On March 3, 2015, two putative shareholder class action complaints were filed in the Court of Chancery of the State of Delaware against Emulex Corporation, or Emulex, its directors, Avago Technologies Wireless (U.S.A.) Manufacturing Inc., or AT Wireless, and Emerald Merger Sub, Inc., or Merger Sub, captioned as follows: James Tullman v. Emulex Corporation, et al., Case No. 10743-VCL (Del. Ch.); Moshe Silver ACF/Yehudit Silver U/NY/UTMA v. Emulex Corporation, et al., Case No. 10744-VCL (Del. Ch.). On March 11, 2015, a third complaint was filed in the Delaware Court of Chancery, captioned Hoai Vu v. Emulex Corporation, et al., Case No. 10776-VCL (Del. Ch.). The complaints allege, among other things, that Emulex’s directors breached their fiduciary duties by approving the Agreement and Plan of Merger, dated February 25, 205, by and among AT Wireless, Merger Sub and Emulex, or the Merger Agreement, and that AT Wireless and Merger Sub aided and abetted these alleged breaches of fiduciary duty. The complaints seek, among other things, either to enjoin the proposed transaction or to rescind it should it be consummated, as well as damages, including attorneys’ and experts’ fees. The Delaware Court of Chancery has entered an order consolidating the three Delaware actions under the caption In re Emulex Corporation Stockholder Litigation, Consolidated C.A. No. 10743-VCL. On June 5, 2015, the Court of Chancery dismissed the consolidated action without prejudice.

On April 8, 2015, a class action complaint was filed in the United States District Court for the Central District of California, entitled Gary Varjabedian, et al. v. Emulex Corporation, et al., No. 8:15-cv-554-CJC-JCG. The complaint names as defendants Emulex, its directors, AT Wireless and Merger Sub, and purports to assert claims under Sections

14(d), 14(e) and 20(a) of the Exchange Act. The complaint alleges that the Board of Directors of Emulex failed to provide material information and/or omitted material information from the Solicitation/Recommendation Statement on Schedule 14D-9 filed with the SEC on April 7, 2015 by Emulex, together with the exhibits and annexes thereto. The complaint seeks to enjoin the tender offer to purchase all of the outstanding shares of Emulex common stock, as well as certain other equitable relief and attorneys' fees and costs.

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Lawsuits Relating to the Acquisition of PLX Technology Inc.

In June and July 2014, four lawsuits were filed in the Superior Court for the State of California, County of Santa Clara challenging our acquisition of PLX. On July 22, 2014, the court consolidated these California actions under the caption In re PLX Technology, Inc. S'holder Litig., Lead Case No. 1-14-CV-267079 (Cal. Super. Ct., Santa Clara) and appointed lead counsel. That same day, the court also stayed the consolidated action, pending resolution of related actions filed in the Delaware Court of Chancery, described below.

Also in June and July 2014, five similar lawsuits were filed in the Delaware Court of Chancery. On July 21, 2014, the court consolidated these Delaware actions under the caption In re PLX Technology, Inc. Stockholders Litigation, Consol. C.A. No. 9880-VCL (Del. Ch.), appointed lead plaintiffs and lead counsel, and designated an operative complaint for the consolidated action. On July 31, 2014, counsel for lead plaintiffs in Delaware informed the court that they would not seek a preliminary injunction, but intend to seek damages and pursue monetary remedies through post-closing litigation. Our acquisition of PLX closed on August 12, 2014.

On October 31, 2014, lead plaintiffs filed a consolidated amended complaint. This complaint alleges, among other things, that PLX's directors breached their fiduciary duties to PLX's stockholders by seeking to sell PLX for an inadequate price, pursuant to an unfair process, and by agreeing to preclusive deal protections in the merger agreement. Plaintiffs also allege that Potomac Capital Partners II, L.P., Deutsche Bank Securities, Avago Technologies Wireless (U.S.A.) Manufacturing, Inc. and the acquisition subsidiary aided and abetted the alleged fiduciary breaches. Plaintiffs also allege that PLX's 14D-9 recommendation statement contained false and misleading statements and/or omitted material information necessary to inform the shareholder vote. The complaint seeks, among other things, monetary damages and attorneys' fees and costs. On November 26, 2014, defendants filed motions to dismiss the complaint for failure to state a claim as a matter of law. The motions were heard on April 15, 2015 and the Court has requested further briefing by June 15, 2015.

The Delaware class litigation is on-going.

Lawsuits Relating to the Acquisition of LSI

Fifteen purported class action complaints were filed by alleged former stockholders of LSI against us. Eight of those lawsuits were filed in the Delaware Court of Chancery, and the other seven lawsuits were filed in the Superior Court of the State of California, County of Santa Clara on behalf of the same putative class as the Delaware actions, or the California Actions. On January 17, 2014, the Delaware Court of Chancery entered an order consolidating the Delaware actions into a single action, or the Delaware Action. These actions generally alleged that we aided and abetted breaches of fiduciary duty by the members of LSI's board of directors in connection with the merger because the merger was not in the best interest of LSI, the merger consideration was unfair and certain other terms of the merger agreement were unfair. Among other remedies, the lawsuits sought to rescind the merger or obtain unspecified money damages, costs and attorneys' fees.

On March 7, 2014, the parties to the Delaware Action reached an agreement in principle to settle the Delaware Action on a class wide basis, and negotiated a stipulation of settlement that was presented to the Delaware Court of Chancery on March 10, 2014. On March 12, 2014, the parties to the California Actions entered into a stipulation staying the California Actions pending resolution of the Delaware Action. On May 16, 2014, the plaintiffs in the Delaware Action filed a motion for final approval of the proposed settlement and award of attorneys' fees and expenses with the Delaware Court of Chancery. On June 10, 2014, the Delaware court approved the settlement, including the payment of $2 million to counsel for the stockholders, entered final judgment and dismissed the case, or the Order and Final Judgment. On July 10, 2014, a class member of the Delaware Action filed a notice of appeal from the Order and Final Judgment. On February 5, 2015, the appeal was dismissed with prejudice.

Other Matters

In addition to the matters discussed above, we are currently engaged in a number of legal actions in the ordinary course of our business.

We do not believe, based on currently available facts and circumstances, that the final outcome of any pending legal proceedings, taken individually or as a whole, will have a material adverse effect on the our financial condition, results of operations or cash flows. However, lawsuits may involve complex questions of fact and law and may require the expenditure of significant funds and other resources to defend. The results of litigation are inherently

uncertain, and material adverse outcomes are possible. From time to time, we may enter into confidential discussions regarding the potential settlement of such lawsuits. Any settlement of pending litigation could require us to incur substantial costs and other ongoing expenses, such as future royalty payments in the case of an intellectual property dispute.

During the periods presented we have not recorded any accrual for loss contingencies associated with any legal proceedings, nor determined that an unfavorable outcome is probable. As a result, no amounts have been accrued or disclosed in the accompanying unaudited condensed consolidated financial statements with respect to these legal proceedings, as potential losses for such matters are not considered probable and ranges of losses are not reasonably estimable. These matters are subject to many uncertainties and the ultimate outcomes are not predictable. There can be no assurances that the actual amounts

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required to satisfy any liabilities arising from the matters described above will not have a material adverse effect on our results of operations, financial position or cash flows.

Other Indemnifications

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

11. Restructuring Charges

During fiscal year 2014, we initiated a series of restructuring activities intended to realign our operations to improve overall efficiency and effectiveness. The following is a summary of significant restructuring expenses recognized in continuing operations for the periods specified below:

- We implemented planned cost reduction and restructuring activities, primarily in our enterprise storage segment, in connection with the acquisition of LSI. As a result, we recognized \$8 million and \$22 million of employee termination costs, primarily in operating expenses during the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively.
- We closed a fabrication facility in Italy related to our wired infrastructure segment. As a result, we recognized \$5 million in cost of products sold and \$8 million in operating expenses during the two fiscal quarters ended May 4, 2014 related to employee termination costs.
- We recognized \$6 million of employee termination costs in operating expenses during the fiscal quarter and two fiscal quarters ended May 4, 2014 related to Avago's pre-acquisition workforce in order to achieve annual cost savings from the LSI acquisition.

The following table summarizes the significant activities within, and components of, the restructuring liabilities related to continuing and discontinued operations during the two fiscal quarters ended May 3, 2015 (in millions):

	Employee Termination Costs	Leases and Other Exit Costs	Total
Balance as of November 2, 2014	\$ 34	\$ 6	\$ 40
Cost of product sold	3	—	3
Operating expenses (a)	21	8	29
Cash payments	(37)	(9)	(46)
Balance as of May 3, 2015 (b)	\$ 21	\$ 5	\$ 26

(a) In connection with the sale of the Axxia Business, we recognized \$5 million of liabilities for leases and other exit costs, which are included in the table above and in income from discontinued operations in the unaudited condensed consolidated statements of operations.

(b) The majority of the employee termination costs balance is expected to be paid by the third quarter of fiscal year 2015. The leases and other exit costs balance is expected to be paid during the remaining terms of the leases, which extend through fiscal year 2019.

12. Discontinued Operations

On November 18, 2014, we completed the sale of the Axxia Business to Intel for \$650 million in cash. As part of this transaction, we provided transitional services to Intel to provide short-term assistance to the buyer in assuming the operations of the purchased business. We have determined that we do not have any material continuing involvement

with the discontinued operations.

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The following table summarizes the selected financial information of the Axxia Business included in discontinued operations in our unaudited condensed consolidated statements of operations for the periods presented (in millions):

	Fiscal Quarter Ended May 3, 2015	Two Fiscal Quarters Ended May 3, 2015
Net revenue	$12	$53
Income from discontinued operations, net of income taxes	$5	$18

Income from discontinued operations included a gain on disposal of $14 million for the two fiscal quarters ended May 3, 2015.

13. Subsequent Events

Emulex Acquisition

On May 5, 2015, we completed the previously announced tender offer to purchase all of the outstanding shares of common stock of Emulex, a publicly traded company and a global leader in network connectivity, monitoring and management. Following the acceptance of, and payment for, the tendered shares, the merger was completed and Emulex became our wholly-owned subsidiary. The aggregate cash consideration paid to acquire all of the outstanding shares of Emulex was approximately $583 million, which was funded by cash available on our balance sheet. We acquired Emulex to broaden our portfolios to better serve the enterprise storage end market.

We are currently evaluating the purchase price allocation following the consummation of the Emulex acquisition. It is not practicable to disclose the preliminary purchase price allocation or unaudited pro-forma combined financial information for this transaction, given the short period of time between the acquisition date and the issuance of these unaudited condensed consolidated financial statements.

Pending Acquisition of Broadcom Corporation

On May 28, 2015, we entered into an Agreement and Plan of Merger, or the Broadcom Agreement, by and among Broadcom, Pavonia Limited, a limited company incorporated under the laws of the Republic of Singapore, or Holdco, Safari Cayman L.P., an exempted limited partnership formed under the laws of the Cayman Islands and a direct wholly-owned subsidiary of Holdco, or the Partnership, Avago Technologies Cayman Holdings Ltd., an exempted company incorporated under the laws of the Cayman Islands and a direct wholly-owned subsidiary of the Partnership, or Intermediate Holdco, Avago Technologies Cayman Finance Limited, an exempted company incorporated under the laws of the Cayman Islands and a direct wholly-owned subsidiary of Intermediate Holdco, or Finance Holdco, Buffalo CS Merger Sub, Inc., a California corporation and wholly-owned subsidiary of Finance Holdco and Buffalo UT Merger Sub, Inc., a California corporation and wholly-owned subsidiary of Finance Holdco, which provides for a proposed business combination transaction between us and Broadcom, or the Transaction.

As a result of the Transaction, at closing, each share of Broadcom common stock will be converted into the right to receive, at the election of each holder of such Broadcom common stock and subject to pro-ration in accordance with the Broadcom Agreement, cash or equity interest in either Holdco or the Partnership. Upon the terms and subject to the conditions set forth in the Broadcom Agreement, Broadcom shareholders will have the ability to elect to receive, with respect to each issued and outstanding share of Broadcom common stock: (a) $54.50 per share in cash; (b) 0.4378 freely-tradable ordinary shares in Holdco; or (c) a restricted equity security that is designed to be the economic equivalent of 0.4378 ordinary shares of Holdco that will not be transferable or saleable for a period of one to two years after closing and is subject to related anti-hedging prohibitions. The foregoing exchange ratios are fixed. The shareholder election will be subject to a pro-ration mechanism, which is anticipated to result in payment in the aggregate of approximately $17 billion in cash consideration and the economic equivalent of approximately 140 million of our ordinary shares (assuming no more than 50% of outstanding shares of Broadcom common stock elect restricted equity securities), valued at $20 billion as of May 27, 2015, resulting in Broadcom shareholders owning approximately 32% of the combined company. Based on the closing share price of our ordinary shares as of May 27, 2015, the implied value of the total transaction consideration for Broadcom is $37 billion. Also as a result of the Transaction, at closing, all our issued ordinary shares as of immediately prior to the effective time of the Transaction will be exchanged on a one-to-one basis for new ordinary shares of Holdco. We intend to finance the $17 billion of cash consideration with cash on hand from both companies and $9 billion in new, fully-committed debt financing

from a consortium of banks. We also intend to refinance substantially all of our and Broadcom's existing debt with committed debt financing, presently aggregating approximately $6 billion.
At the closing of the Transaction, each unvested Broadcom option and restricted stock unit will be converted into the right to receive, on the same terms and conditions as were applicable under such Broadcom option or restricted stock unit (including with respect to vesting), an equity award from Holdco appropriately adjusted to take into account the transaction consideration.

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All vested Broadcom stock options and restricted stock units, after giving effect to any acceleration, will be cashed out, except that any vested Broadcom option that is an underwater option will be cancelled for no consideration.
At the closing of the Transaction, each outstanding Avago option and restricted share unit will be converted into the right to receive, on the same terms and conditions as were applicable under such Avago option or restricted share unit (including with respect to vesting and, in case of Avago options, exercise price), an equity award from Holdco in respect of the same number of Holdco ordinary shares as were subject to, and on the same terms as, the underlying Avago option or restricted share unit.
The Transaction has been unanimously approved by the boards of directors of both companies, as well as a special committee of the independent directors of Broadcom. Consummation of the Transaction is subject to the satisfaction or waiver of the conditions set forth in the definitive agreement, including approval of the Transaction by our shareholders and Broadcom shareholders, the expiration or termination of the waiting period under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of regulatory clearance under certain foreign anti-trust laws, as well as other customary closing conditions.
Avago and Broadcom may each terminate the definitive agreement under certain circumstances, and in connection with the termination of the definitive agreement under specified circumstances, Avago or Broadcom may be required to pay the other party a termination fee of $1 billion. Additionally, in the event that either Avago or Broadcom terminates the definitive agreement as a result of the failure by either party's shareholders to approve the Transaction, Broadcom or Avago, as the case may be, must pay the other party a fee of approximately $333 million.
Avago and Broadcom have each made customary covenants in the Broadcom Agreement, including, without limitation, covenants not to solicit alternative transactions or, subject to certain exceptions, not to enter into discussions concerning, or provide confidential information in connection with, an alternative transaction.
We currently expect the Transaction to close by the end of the first calendar quarter of 2016.

Conversion of Convertible Notes

On June 1, 2015, the Purchasers of all of the outstanding Convertible Notes submitted to the Company conversion notices exercising their right to convert all of the Convertible Notes that they hold, or the Conversion. The Company will satisfy its conversion obligation by paying cash equal to the $1 billion principal amount of the Convertible Notes and delivering ordinary shares with respect to the conversion value in excess of that amount, or the Conversion Obligation, in each case pursuant to the terms of the Indenture. The number of our ordinary shares which it is obligated to issue to the Purchasers pursuant to the Conversion Obligation will be based on (a) the per share volume-weighted average market prices of our ordinary shares during each of the 20 consecutive trading day period beginning on, and including, the second trading day immediately succeeding the conversion date (June 1, 2015), and (b) the applicable conversion ratio (20.8685 ordinary shares per $1,000 principal amount of Convertible Notes as of June 1, 2015) on each such trading day, which is subject to adjustment pursuant to the terms of the Indenture. If settlement of the Conversion occurs in accordance with the terms of the Indenture, we would expect the Conversion to occur on July 6, 2015.

Cash Dividends Declared

On June 3, 2015, the Board declared a quarterly cash dividend of $0.40 per ordinary share, payable on June 30, 2015 to shareholders of record at the close of business (Eastern time) on June 19, 2015.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended November 2, 2014, or fiscal year 2014, included in our Annual Report on Form 10-K for fiscal year 2014, or 2014 Annual Report on Form 10-K. References to "Avago," "the Company," "we," "our" and "us" are to Avago Technologies Limit and its consolidated subsidiaries, unless otherwise specified or the context otherwise requires. This Quarterly Report on Form 10-Q may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, which are made under the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements may include projections of financial information; statements about historical results that may suggest trends for our business; statements of the plans, strategies, and objectives of management for future operations, including merger, acquisition and divestiture and related activities, including our pending acquisition of Broadcom Corporation, or Broadcom; statements of expectation or belief regarding future events, technology developments, our products, product sales, expenses, liquidity, cash flow and growth rates, customer concentration and relationships, or enforceability of our intellectual property, or IP, rights; and the effects of seasonality on our results of operations. Such statements are based on current expectations, estimates, forecasts and projections of our or industry performance and macroeconomic conditions, based on management's judgment, beliefs, current trends and market conditions, and involve risks and uncertainties that may cause actual results to differ materially from those contained in the forward-looking statements. We derive most of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Accordingly, we caution you not to place undue reliance on these statements. For example, there can be no assurance that we will complete our pending acquisition of Broadcom Corporation, or Broadcom, that our product sales efforts, revenues or expenses will meet any expectations or follow any trend(s), that our ability to compete effectively will be successful or yield anticipated results, or that we will realize the expected benefits of our pending acquisition of Broadcom, our acquisitions of LSI Corporation, or LSI, PLX Technology, Inc., or PLX, and Emulex Corporation, or Emulex, or dispositions we may make. Important factors that could cause actual results to differ materially from our expectations are disclosed under "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q, and in other documents we file from time to time with the Securities and Exchange Commission, or SEC. All of the forward-looking statements in this Quarterly Report on Form 10-Q are qualified in their entirety by reference to the factors listed above and those discussed under the heading "Risk Factors" below. We undertake no intent or obligation to publicly update or revise any of these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

We are a leading designer, developer and global supplier of a broad range of semiconductor devices with a focus on analog III-V based products and complex digital and mixed signal complementary metal oxide semiconductor based devices. We have a history of innovation and offer thousands of products that are used in end products, such as smartphones, hard disk drives, or HDDs, computer servers, consumer appliances, data networking and telecommunications equipment, enterprise storage and servers, and factory automation and industrial equipment. We have four reportable segments: wireless communications, enterprise storage, wired infrastructure and industrial & other, which align with our principal target markets. We differentiate ourselves through our high performance design and integration capabilities and focus on developing products for target markets where we believe we can earn attractive margins.

The percentage of total net revenue generated by sales in each of our segments varies from fiscal quarter to quarter, due largely to fluctuations in target-market demand. During the first two quarters of fiscal year 2015, our net revenue increased significantly compared to the first two quarters of fiscal year 2014, mainly due to revenue contribution from the enterprise storage segment, which we acquired in the LSI acquisition. Net revenue from each of our three other

segments also increased during this period compared to the first two quarters of fiscal year 2014, mainly due to content and unit growth in the wireless communications segment, and due to revenue contribution from the acquired LSI business in the wired infrastructure segment.
Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. Foxconn Technology Group companies, or Foxconn, accounted for 21% and 24% of our net revenue during the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively. Foxconn and Samsung Group companies, or Samsung, accounted for 14% and 13% of our net revenue, respectively, during the fiscal quarter ended May 4, 2014 and 20% and 10% of our net revenue, respectively, during the two fiscal quarters ended May 4, 2014.
Our top 10 direct customers collectively account for an increasing portion of our total net revenue. For the fiscal quarter and two fiscal quarters ended May 3, 2015, our top 10 direct customers, which included three and four distributors, respectively, collectively accounted for 56% and 57% of our net revenue, respectively. We believe our aggregate sales to Apple Inc., when

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our direct sales to it are combined with indirect sales to the contract manufacturers that it utilizes, accounted for more than 10% of our net revenues for the fiscal quarter and two fiscal quarters ended May 3, 2015.

From time to time, some of our key customers, particularly in our wireless communications and enterprise storage segments, place large orders or delay orders, respectively, causing our quarterly net revenue to fluctuate significantly. We expect that these fluctuations will continue and that they may be exaggerated by the launches of, and seasonal variations in sales of, consumer products such as mobile handsets and HDDs, as well as changes in the overall economic environment.

Acquisitions and Divestiture

Pending Acquisition of Broadcom Corporation

On May 28, 2015, we entered into an Agreement and Plan of Merger, or the Broadcom Agreement, by and among Broadcom Corporation, or Broadcom, Pavonia Limited, a limited company incorporated under the laws of the Republic of Singapore, or Holdco, Safari Cayman L.P., an exempted limited partnership formed under the laws of the Cayman Islands and a direct wholly-owned subsidiary of Holdco, or the Partnership, Avago Technologies Cayman Holdings Ltd., an exempted company incorporated under the laws of the Cayman Islands and a direct wholly-owned subsidiary of the Partnership, or Intermediate Holdco, Avago Technologies Cayman Finance Limited, an exempted company incorporated under the laws of the Cayman Islands and a direct wholly-owned subsidiary of Intermediate Holdco, or Finance Holdco, Buffalo CS Merger Sub, Inc., a California corporation and wholly-owned subsidiary of Finance Holdco and Buffalo UT Merger Sub, Inc., a California corporation and wholly-owned subsidiary of Finance Holdco, which provides for a proposed business combination transaction between us and Broadcom, or the Transaction.

As a result of the Transaction, at closing, each share of Broadcom common stock will be converted into the right to receive, at the election of each holder of such Broadcom common stock and subject to pro-ration in accordance with the Broadcom Agreement as described below, cash or equity interest in either Holdco or the Partnership. Upon the terms and subject to the conditions set forth in the Broadcom Agreement, Broadcom shareholders will have the ability to elect to receive, with respect to each issued and outstanding share of Broadcom common stock: (a) $54.50 per share in cash; (b) 0.4378 freely-tradable ordinary shares in Holdco; or (c) a restricted equity security that is designed to be the economic equivalent of 0.4378 ordinary shares of Holdco that will not be transferable or saleable for a period of one to two years after closing and is subject to related anti-hedging prohibitions. The foregoing exchange ratios are fixed. The shareholder election will be subject to a pro-ration mechanism, which is anticipated to result in payment in the aggregate of approximately $17 billion in cash consideration and the economic equivalent of approximately 140 million of our ordinary shares (assuming no more than 50% of outstanding shares of Broadcom common stock elect restricted equity securities). Also as a result of the Transaction, at closing, all our issued ordinary shares as of immediately prior to the effective time of the Transaction will be exchanged on a one-to-one basis for new ordinary shares of Holdco.

We intend to finance the $17 billion of cash consideration with cash on hand from both companies and $9 billion in new, fully-committed debt financing from a consortium of banks. We also intend to refinance substantially all of our and Broadcom's existing debt with committed debt financing, presently aggregating approximately $6 billion.

At the closing of the Transaction, each unvested Broadcom option and restricted stock unit will be converted into the right to receive, on the same terms and conditions as were applicable under such Broadcom option or restricted stock unit (including with respect to vesting), an equity award from Holdco appropriately adjusted to take into account the transaction consideration. All vested Broadcom stock options and restricted stock units, after giving effect to any acceleration, will be cashed out, except that any vested Broadcom option that is an underwater option will be cancelled for no consideration.

At the closing of the Transaction, each outstanding Avago option and restricted share unit will be converted into the right to receive, on the same terms and conditions as were applicable under such Avago option or restricted share unit (including with respect to vesting and, in case of Avago options, exercise price), an equity award from Holdco in respect of the same number of Holdco ordinary shares as were subject to, and on the same terms as, the underlying Avago option or restricted share unit.

The Transaction has been unanimously approved by the boards of directors of both companies, as well as a special committee of the independent directors of Broadcom. Consummation of the Transaction is subject to the satisfaction or waiver of the conditions set forth in the definitive agreement, including approval of the Transaction by our shareholders and Broadcom shareholders, the expiration or termination of the waiting period under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of regulatory clearance under certain foreign anti-trust laws, as well as other customary closing conditions.
Avago and Broadcom may each terminate the definitive agreement under certain circumstances, and in connection with the termination of the definitive agreement under specified circumstances, Avago or Broadcom may be required to pay the other party a termination fee of $1 billion. Additionally, in the event that either Avago or Broadcom terminates the definitive agreement as a result of the failure by either party’s shareholders to approve the Transaction, Broadcom or Avago, as the case may be, must pay the other party a fee of approximately $333 million.

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Avago and Broadcom have each made customary covenants in the Broadcom Agreement, including, without limitation, covenants not to solicit alternative transactions or, subject to certain exceptions, not to enter into discussions concerning, or provide confidential information in connection with, an alternative transaction.
We currently expect the Transaction to close by the end of the first calendar quarter of 2016.

Acquisition of Emulex Corporation

On May 5, 2015, we completed our acquisition of Emulex through a tender offer and subsequent merger of Emulex into one of our wholly-owned subsidiaries. The aggregate cash consideration paid to acquire all of the outstanding shares of Emulex was approximately $583 million, which was funded with available cash on hand. We are in the process of integrating Emulex into our enterprise storage segment.

Sale of the LSI Axxia Networking Business

On November 18, 2014, we completed the sale of the LSI Axxia Networking Business and related assets, or the Axxia Business, to Intel Corporation for $650 million in cash. The results of the Axxia Business were included in discontinued operations.

Restructuring

During fiscal year 2014, we initiated a series of planned restructuring activities in connection with the LSI and PLX acquisitions and also to improve overall operational efficiency and effectiveness. Restructuring charges related to these actions are discussed below in "Results of Operations."

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States, or GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. Our critical accounting policies are those that affect our historical financial statements materially and involve difficult, subjective or complex judgments by management. Those policies include revenue recognition, accounting for business combinations, valuation of long-lived assets, intangible assets and goodwill, inventory valuation and warranty reserves, accounting for income taxes, retirement and post-retirement benefit plan assumptions, share-based compensation, and employee bonus programs.
There were no significant changes in our critical accounting policies during the two fiscal quarters ended May 3, 2015 compared to those previously disclosed in “Critical Accounting Policies and Estimates” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2014 Annual Report on Form 10-K.

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Results of Operations

Fiscal Quarter and Two Fiscal Quarters Ended May 3, 2015 Compared to Fiscal Quarter and Two Fiscal Quarters Ended May 4, 2014

The following tables set forth our results of operations for the fiscal quarters and two fiscal quarters ended May 3, 2015 and May 4, 2014.

	Fiscal Quarter Ended			
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
	(In millions)		(As a percentage of net revenue)	
Statements of Operations Data:				
Net revenue	$1,614	$701	100 %	100 %
Cost of products sold:				
Cost of products sold	654	326	41	46
Amortization of intangible assets	113	18	7	3
Restructuring charges	1	—	—	—
Total cost of products sold	768	344	48	49
Gross margin	846	357	52	51
Research and development	251	114	15	16
Selling, general and administrative	108	67	7	10
Amortization of intangible assets	59	8	3	1
Restructuring charges	10	8	1	1
Total operating expenses	428	197	26	28
Operating income	418	160	26	23
Interest expense	(53)	(1)	(3)	—
Other expense, net	(1)	—	—	—
Income from continuing operations before income taxes	364	159	23	23
Provision for income taxes	25	1	2	—
Income from continuing operations	339	158	21	23
Income from discontinued operations, net of income taxes	5	—	—	—
Net income	$344	$158	21 %	23 %

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	Two Fiscal Quarters Ended			
	May 3, 2015	May 4, 2014	May 3, 2015	May 4, 2014
	(In millions)		(As a percentage of net revenue)	
Statements of Operations Data:				
Net revenue	$3,249	$1,410	100 %	100 %
Cost of products sold:				
Cost of products sold	1,348	673	42	48
Amortization of intangible assets	226	36	7	3
Restructuring charges	3	5	—	—
Total cost of products sold	1,577	714	49	51
Gross margin	1,672	696	51	49
Research and development	486	221	15	16
Selling, general and administrative	225	141	7	10
Amortization of intangible assets	118	15	3	1
Restructuring charges	24	20	1	1
Total operating expenses	853	397	26	28
Operating income	819	299	25	21
Interest expense	(107)	(1)	(3)	—
Other income, net	3	—	—	—
Income from continuing operations before income taxes	715	298	22	21
Provision for income taxes	38	6	1	—
Income from continuing operations	677	292	21	21
Income from and gain on discontinued operations, net of income taxes	18	—	—	—
Net income	$695	$292	21 %	21 %

Net revenue. Net revenue was $1,614 million for the fiscal quarter ended May 3, 2015 compared to $701 million for the fiscal quarter ended May 4, 2014, an increase of $913 million, or 130%. Net revenue was $3,249 million for the two fiscal quarters ended May 3, 2015 compared to $1,410 million for the two fiscal quarters ended May 4, 2014, an increase of $1,839 million, or 130%. The increases in net revenue for the fiscal quarter and two fiscal quarters ended May 3, 2015 were primarily due to revenue from the acquired LSI businesses, which included increases of $630 million and $1,235 million, respectively, from our enterprise storage and wired infrastructure segments, as well as an increase of $228 million and $543 million, respectively, in net revenue due to continued strong growth in our wireless communications segment. Net revenue for the fiscal quarter and two fiscal quarters ended May 3, 2015 also included $94 million and $146 million, respectively, of revenue from development arrangements and sales and licensing of IP, compared to $24 million and $53 million, respectively, in the corresponding prior year fiscal periods.

Gross margin. Gross margin was $846 million for the fiscal quarter ended May 3, 2015 compared to $357 million for the fiscal quarter ended May 4, 2014, an increase of $489 million. As a percentage of net revenue, gross margin was 52% and 51% for the fiscal quarters ended May 3, 2015 and May 4, 2014, respectively. Gross margin was $1,672 million for the two fiscal quarters ended May 3, 2015 compared to $696 million for the two fiscal quarters ended May 4, 2014, an increase of $976 million. As a percentage of net revenue, gross margin was 51% and 49% for the two fiscal quarters ended May 3, 2015 and May 4, 2014, respectively. The increase in gross margin dollars and percentage of revenue was due primarily to gross margin contributions from our enterprise storage segment, which we acquired in the LSI acquisition, an increase in net revenue from, and improved product mix in, our wireless communications segment, as well as an increase in net revenue from development arrangements and sales and licensing of IP, partially offset by a large increase in amortization of intangible assets related to the LSI and PLX acquisitions.

Research and development. Research and development expense increased $137 million, or 120%, for the fiscal quarter ended May 3, 2015 compared to the fiscal quarter ended May 4, 2014. Research and development expense increased $265 million, or 120%, for the two fiscal quarters ended May 3, 2015 compared to the two fiscal quarters ended May 4, 2014. As a percentage of net revenue, research and development expense remained relatively flat at 15% in the fiscal quarter and two fiscal

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quarters ended May 3, 2015 compared to 16% in the corresponding prior year periods. The increase in research and development expense dollars was primarily due to the LSI and PLX acquisitions.

Selling, general and administrative. Selling, general and administrative expense increased $41 million, or 61%, for the fiscal quarter ended May 3, 2015 compared to the fiscal quarter ended May 4, 2014. Selling, general and administrative expense increased $84 million, or 60%, for the two fiscal quarters ended May 3, 2015 compared to the two fiscal quarters ended May 4, 2014. As a percentage of net revenue, selling, general and administrative expense decreased to 7% for the fiscal quarter and two fiscal quarters ended May 3, 2015 compared to 10% in the corresponding prior year periods. The increase in selling, general and administrative expense dollars year over year was primarily due to the LSI acquisition. The decrease in selling, general and administrative expense as a percentage of net revenue was due to revenue increases proportionally outpacing growth in selling, general and administrative expense.

Amortization of intangible assets. Total amortization of intangible assets was $172 million and $344 million for the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, compared to $26 million and $51 million, respectively, in the corresponding prior year fiscal periods. The increase in amortization expense in fiscal year 2015 was primarily attributable to an increase in amortizable intangible assets from the LSI and PLX acquisitions.

Restructuring charges. Restructuring charges, recognized primarily in operating expenses, were $11 million and $27 million for the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, compared to $8 million and $25 million, respectively, in the corresponding prior year fiscal periods. These restructuring charges were due primarily to employee termination costs resulting from the LSI acquisition. We expect to incur additional restructuring charges in future periods as a result of the acquisition of Emulex on May 5, 2015 and further integration and alignment of the completed LSI and PLX acquisitions.

Interest expense. Interest expense was $53 million and $107 million for the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, primarily consisting of interest on the outstanding balance of our $4.0 billion term loan borrowings, or Term Loans, and on the $1 billion principal amount of our 2.0% Convertible Senior Notes due 2021, or the Convertible Notes, as well as fees related to our senior secured, revolving credit facility in a principal amount of up to $500 million, or the 2014 Revolving Credit Facility, together with the amortization of related debt issuance costs and accretion of the debt discount on the Convertible Notes. Interest expense was $1 million for the fiscal quarter and two fiscal quarters ended May 4, 2014.

Other income (expense), net. Other income (expense), net includes gains (losses) on investments, interest income, gains (losses) on foreign currency remeasurement and other miscellaneous items. In March 2015, we made a $593 million principal prepayment on our Term Loans, which resulted in a partial write-off of debt issuance costs of $13 million for the fiscal quarter and two fiscal quarters ended May 3, 2015.

Provision for income taxes. For the fiscal quarter and two fiscal quarters ended May 3, 2015, we recorded an income tax provision of $25 million and $38 million, respectively, compared to an income tax provision of $1 million and $6 million for the fiscal quarter and two fiscal quarters ended May 4, 2014, respectively. The increase in income tax provision was largely due to the increase in profit before tax.

The income tax provision for the fiscal quarter and two fiscal quarters ended May 3, 2015 included tax benefits of $5 million and $9 million, respectively, from the net recognition of previously unrecognized tax benefits, compared to $10 million and $14 million for the fiscal quarter and two fiscal quarters ended May 4, 2014, respectively, as a result of the expiration of the statute of limitations for certain audit periods. The income tax provision for the two fiscal quarters ended May 3, 2015 also included a discrete benefit of $15 million from the retroactive reinstatement of the U.S. Federal Research and Development tax credit from January 1, 2014 to December 31, 2014, with the enactment of the Tax Increase Prevention Act of 2014.

Segment Results

Net revenue and operating income by segment were as follows (in millions, except percentages):

	Fiscal Quarter Ended				Two Fiscal Quarters Ended			
% of Net Revenue	May 3, 2015		May 4, 2014		May 3, 2015		May 4, 2014	
Wireless communications	36	%	50	%	38	%	49	%

Enterprise storage	29		—		29		—	
Wired infrastructure	23		31		23		32	
Industrial & other	12		19		10		19	
Total net revenue	100	%	100	%	100	%	100	%

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Net Revenue	Fiscal Quarter Ended				Two Fiscal Quarters Ended			
	May 3, 2015	May 4, 2014	Change		May 3, 2015	May 4, 2014	Change	
Wireless communications	$576	$348	$228	66 %	$1,240	$697	$543	78 %
Enterprise storage	467	—	467	*	953	—	953	*
Wired infrastructure	382	219	163	74 %	729	447	282	63 %
Industrial & other	189	134	55	41 %	327	266	61	23 %
Total net revenue	$1,614	$701	$913		$3,249	$1,410	$1,839	

* Prior to the closing of the LSI acquisition on May 6, 2014, we had no revenue from this segment. Therefore, reporting a change as a percentage of net revenue for this segment is not meaningful.

Operating Income	Fiscal Quarter Ended			Two Fiscal Quarters Ended		
	May 3, 2015	May 4, 2014	Change	May 3, 2015	May 4, 2014	Change
Wireless communications	$264	$125	$139	$586	$231	$355
Enterprise storage	177	—	177	363	—	363
Wired infrastructure	120	45	75	215	102	113
Industrial & other	109	63	46	165	124	41
Unallocated expenses	(252)	(73)	(179)	(510)	(158)	(352)
Total operating income	$418	$160	$258	$819	$299	$520

Wireless Communications. Net revenue from our wireless communications segment increased by $228 million, or 66%, and $543 million, or 78%, in the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, compared with the corresponding prior fiscal year periods, primarily due to a substantial increase in our radio frequency product content in smartphones and an increase in unit sales of smartphones containing our products. As a result of stronger than expected demand in this segment, we have been and expect to remain capacity constrained with respect to our film bulk acoustic resonator, or FBAR, products for the remainder of fiscal year 2015.

Operating income from our wireless communications segment was 46% and 47% of segment revenue in the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, compared to 36% and 33% of segment revenue in the corresponding prior fiscal year periods, primarily due to higher revenue and stable research and development expense.

Enterprise Storage. Our enterprise storage segment resulted from our acquisition of LSI in May 2014. Operating income from our enterprise storage segment was 38% of segment revenue in the fiscal quarter and two fiscal quarters ended May 3, 2015.

Wired Infrastructure. Net revenue from our wired infrastructure segment increased by $163 million, or 74%, and $282 million, or 63%, in the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, compared with the corresponding prior fiscal year periods. The increase was primarily due to revenue contribution from the application specific integrated circuits, or ASIC, products from the acquired LSI business. Operating income from our wired infrastructure segment was 31% and 29% of segment revenue in the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, compared to 21% and 23% of segment revenue in the corresponding prior fiscal year periods primarily due to higher revenue and an increase in gross margin.

Industrial & Other. Net revenue from our industrial & other segment increased by $55 million, or 41%, and $61 million, or 23%, in the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, compared with the corresponding prior fiscal year periods, primarily due to an increase in IP licensing revenue. Operating income from our industrial & other segment was 58% and 50% of segment revenue in the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, compared to 47% of segment revenue in each of the corresponding prior fiscal year periods, primarily due to higher IP licensing revenue in the fiscal quarter and two fiscal quarters ended May 3, 2015.

Unallocated Expenses. Unallocated expenses included amortization of intangible assets, primarily due to our acquisitions, share-based compensation expense, restructuring charges, acquisition-related costs, and other costs that are not used in evaluating the results of, or in allocating resources to, our segments. Unallocated expenses increased

$179 million and $352 million in the fiscal quarter and two fiscal quarters ended May 3, 2015, respectively, compared with the corresponding prior fiscal year periods. The increase was primarily due to higher operating expenses related to increases in amortization of intangible assets in connection with our acquisitions of LSI and PLX. Additionally, share-based compensation expense increased in the fiscal quarter and two fiscal quarters ended May 3, 2015 compared with the corresponding prior fiscal year

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periods, due to annual focal employee equity awards at higher grant-date fair values and grants assumed and made to employees hired in the acquisitions.

Seasonality

Our net revenue in the second half of the fiscal year has typically been higher than our net revenue in the first half of the fiscal year, primarily due to seasonality in our wireless communications segment. This segment has historically experienced seasonality due to calendar year-end holiday increases in sales of mobile handsets manufactured by our OEM customers. However, from time to time, some of our key customers, particularly in our wireless communications and enterprise storage segments, place or delay large orders, often in connection with their expected new product launches, which cause our quarterly net revenues to fluctuate significantly. These fluctuations, combined with other factors, such as changes in the overall economic environment, have increasingly overshadowed typical seasonal effects in recent periods.

Liquidity and Capital Resources

Our primary sources of liquidity as of May 3, 2015 consisted of: (1) approximately $2,508 million in cash and cash equivalents, (2) cash we expect to generate from operations, (3) our $500 million 2014 Revolving Credit Facility, which is committed until May 6, 2019, the majority of which was available to be drawn as of May 3, 2015 (after consideration of an immaterial amount of letters of credit outstanding under the facility) and (4) the ability to increase the aggregate term loans and revolving credit commitments capacity to $6.7 billion under a senior secured credit agreement with a syndicate of financial institutions, or the 2014 Credit Agreement.

Our short-term and long-term liquidity requirements primarily arise from: (i) interest, principal and commitment fee payments related to borrowings incurred to fund the acquisition of LSI and debt assumed in the Emulex acquisition, (ii) working capital requirements, (iii) research and development and capital expenditure needs, (iv) business acquisitions, such as our recently announced, pending acquisition of Broadcom, and investments we may make from time to time, (v) quarterly cash dividend payments (if and when declared by our board of directors, or the Board) and (vi) funding employee benefit plan obligations. Our ability to fund these requirements will depend, in part, on our future cash flows, which are determined by future operating performance and are, therefore, subject to prevailing global macroeconomic conditions and financial, business and other factors, some of which are beyond our control.

Dividends

On June 3, 2015, the Board declared a quarterly interim cash dividend on our ordinary shares of $0.40 per share, payable on June 30, 2015 to shareholders of record on June 19, 2015.

Conversion of Convertible Notes

On June 1, 2015, the holders, or the Purchasers, of all of our outstanding Convertible Notes submitted to the Company conversion notices exercising their right to convert all of the Convertible Notes that they hold, or the Conversion. The Company will satisfy its conversion obligation by paying cash equal to the $1 billion principal amount of the Convertible Notes and delivering ordinary shares with respect to the conversion value in excess of that amount, or the Conversion Obligation, in each case pursuant to the terms of the indenture relating to the Convertible Notes, or the Indenture.

Emulex Convertible Notes

As a result of our acquisition of Emulex, all of the $175 million aggregate principal amount outstanding of Emulex's 1.75% Convertible Senior Notes due 2018, or the Emulex Notes, became convertible at an increased conversion rate until June 30, 2015, under the make-whole fundamental change provision of the notes. As a result of the acquisition, upon conversion, holders of Emulex Notes will only receive a cash payment based on the $8.00 per share acquisition price. If all holders of the Emulex Notes elect to convert their notes during this period, it will result in aggregate cash payments to holders of approximately $180 million. As of June 4, 2015, $154 million aggregate principal amount of the Emulex Notes had been converted and settled.

Partial Prepayment of Term Loans

In March 2015, we made a $593 million principal prepayment under our outstanding Term Loans, in addition to our quarterly mandatory payment of $12 million.

Summary

Our cash and cash equivalents increased by $904 million to $2,508 million at May 3, 2015 from $1,604 million at November 2, 2014. The increase was largely due to $1,144 million in cash provided by operating activities, $650 million of proceeds from the sale of the Axxia Business and $130 million from the issuance of ordinary shares upon exercises of options and purchase rights under our employee share purchase plan, partially offset by $617 million in debt repayments, $339 million for capital expenditures and $188 million in dividends to our shareholders.
We believe that our cash and cash equivalents on hand and cash flows from operations, combined with current borrowing availability under the accordion feature in our 2014 Credit Agreement and 2014 Revolving Credit Facility, and committed debt funding relating to the pending Broadcom acquisition, provide sufficient liquidity to fund our current obligations, including the

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current portions of our long-term debt and interest due, the tender or conversion of the outstanding Convertible Notes and interest due for settlement in cash, our annual cash contributions to fund pension and retirement plan obligations, projected working capital requirements, capital expenditures, quarterly cash dividends (if and when declared by our Board) and any share repurchases (if and when authorized by our Board) we may choose to make for at least the next 12 months. We believe that, after giving effect to the acquisition of Emulex and pending acquisition of Broadcom, we will have sufficient cash on hand to operate our business and satisfy our current and assumed obligations.

We anticipate that our capital expenditures for fiscal year 2015 will be higher than fiscal year 2014, due primarily to continued spending related to ongoing capacity expansion in our Fort Collins internal fabrication facility, as well as spending on equipment to support various research and development projects and expenditures related to our San Jose, California campus rationalization.

From time to time, we engage in discussions with third parties regarding potential acquisitions of, or investments in, businesses, technologies and product lines, such as our recently completed acquisition of Emulex and our pending acquisition of Broadcom. Any such transaction could require significant use of our cash and cash equivalents, or require us to borrow under our 2014 Credit Agreement or otherwise to fund the transaction. We could also reduce certain expenditures such as payment of our quarterly cash dividend. If we do not have sufficient cash to fund our operations or finance growth opportunities, including acquisitions, or unanticipated capital expenditures, our business and financial condition could suffer. In such circumstances we may also seek to obtain new debt or equity financing. However, we cannot assure you that such additional financing will be available on terms acceptable to us or at all. Our ability to service any indebtedness we may incur, including under our 2014 Credit Agreement and related 2014 Revolving Credit Facility and the outstanding Convertible Notes, will depend on our ability to generate cash in the future.

We may also elect to sell additional debt or equity securities, increase the aggregate term loans and revolving credit commitments capacity to $6.7 billion under the 2014 Credit Agreement, pursuant to its terms or increase our current 2014 Revolving Credit Facility for reasons other than those specified above.

Cash Flows for the Two Fiscal Quarters Ended May 3, 2015 and May 4, 2014

Our cash flows for the two fiscal quarters ended May 3, 2015 and May 4, 2014 were as follows (in millions):

	Two Fiscal Quarters Ended	
	May 3, 2015	May 4, 2014
Net cash provided by operating activities	$1,144	$480
Net cash provided by (used in) investing activities	365	(111)
Net cash used in financing activities	(605)	(76)
Net increase in cash and cash equivalents	$904	$293

Operating Activities

Net cash provided by operating activities during the two fiscal quarters ended May 3, 2015 was $1,144 million. The net cash provided by operating activities was principally due to net income of $695 million, which included non-cash charges of $587 million that were partially offset by changes in operating assets and liabilities of $138 million. The non-cash charges of $587 million included $456 million for depreciation and amortization and $106 million of share-based compensation.

Trade accounts receivable decreased to $758 million at May 3, 2015 from $782 million at November 2, 2014. The number of days sales outstanding decreased to 43 days at May 3, 2015 from 45 days at November 2, 2014 due to the linearity of revenue and timing of collections.

Inventory decreased to $490 million at May 3, 2015 from $519 million at November 2, 2014. The number of days of inventory on hand remained relatively flat at 68 days at May 3, 2015 compared to 69 days at November 2, 2014. The decrease in inventory dollars is primarily due to consumption of inventory built in the prior quarter for our wireless communications segment.

Other current assets increased to $316 million at May 3, 2015 from $302 million at November 2, 2014, primarily due to increases in short-term deferred tax assets and other current receivables, partially offset by a net reduction in IP-related receivables as collections exceeded amounts reclassified from other long-term assets.

Other long-term assets decreased to $236 million at May 3, 2015 from $285 million at November 2, 2014 primarily due to amounts reclassified from long-term IP-related receivables to current, amortization and write-off of debt issuance costs and a decrease in other long-term receivables.

Accounts payable decreased to $501 million at May 3, 2015 from $515 million at November 2, 2014 primarily due to the timing of disbursements.

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Employee compensation and benefits accruals decreased to $181 million at May 3, 2015 from $219 million at November 2, 2014, primarily due to payments made under our annual employee cash bonus plans related to our fiscal year 2014 performance.
Other current liabilities decreased to $178 million at May 3, 2015 from $236 million at November 2, 2014, primarily due to a reduction in accrued income taxes payable and payments of our restructuring liabilities, partially offset by increases in general accrued liabilities and deferred revenue.
Long-term pension and post-retirement benefit obligations decreased to $481 million at May 3, 2015 from $506 million at November 2, 2014 primarily due to contributions to certain of our pension plans and net periodic benefit income.
Other long-term liabilities decreased to $232 million at May 3, 2015 from $263 million at November 2, 2014 primarily due to a decrease in long-term deferred tax liabilities, partially offset by an increase in IP-related deferred revenue.
Net cash provided by operating activities during the two fiscal quarters ended May 4, 2014 was $480 million. The net cash provided by operating activities was principally due to net income of $292 million, which includes non-cash charges of $168 million and changes in operating assets and liabilities of $20 million. The non-cash charges of $168 million included $118 million for depreciation and amortization and $54 million of non-cash, share-based compensation.
Accounts receivable decreased to $319 million at May 4, 2014 from $418 million at the end of fiscal year 2013. The number of days sales outstanding decreased to 42 days at May 4, 2014 from 52 days at November 3, 2013 due to the linearity of revenue during the quarter and timing of collections.
Inventory increased to $301 million at May 4, 2014 from $285 million at the end of fiscal year 2013. The number of days of inventory on hand increased to 84 days at May 4, 2014 compared to 69 days at November 3, 2013, due primarily to a planned increase in inventory to prepare for an anticipated increase in demand from our wireless communication target markets, as well as significant lifetime purchases of certain wafers and other materials in fiscal quarter ended May 4, 2014. Of the 84 and 69 days of inventory on hand as at May 4, 2014 and November 3, 2013, respectively, 10 and 9 days, respectively, were attributable to the lifetime purchases.
Other current assets increased to $136 million at May 4, 2014 from $130 million at the end of fiscal year 2013 primarily due to increases in other receivables and deposits, partially offset by the sale of our investment in common stock of a U.S. publicly traded company and a decrease in current deferred tax assets.
Other long-term assets increased to $73 million at May 4, 2014 from $53 million at the end of fiscal year 2013 primarily due to an increase in long-term deferred tax charges, partially offset by a decrease in long-term prepaid expenses primarily attributable to the acceleration of retention bonus payments to certain employees of CyOptics, Inc., or CyOptics, upon their involuntarily termination, in accordance with the provisions of the CyOptics retention bonus plan.
Accounts payable decreased to $274 million at May 4, 2014 from $278 million at the end of fiscal year 2013 primarily due to timing of disbursements.
Employee compensation and benefits accruals decreased to $86 million at May 4, 2014 compared to $98 million at the end of fiscal year 2013 primarily due to payments made under our employee cash bonus plan related to our fiscal year 2013 performance.
Other current liabilities increased to $56 million at May 4, 2014 from $47 million at the end of fiscal year 2013 primarily due to an increase in accrued restructuring charges, partially offset by decreases in accrued current liabilities primarily due to a tax refund payment to CyOptics shareholders, in income, sales and use taxes payable and in accrued sales commissions.
Other long-term liabilities decreased to $101 million at May 4, 2014 from $106 million at the end of fiscal year 2013 primarily due to a decrease in long-term pension liabilities resulting from an amendment to our U.S. post-retirement medical benefit plan and an amendment to convert a non-U.S. defined benefit plan into a defined contribution plan, partially offset by an increase in deferred tax liabilities.
Investing Activities

Net cash provided by investing activities for the two fiscal quarters ended May 3, 2015 was $365 million, primarily due to $650 million of proceeds from the sale of the Axxia Business and $63 million in proceeds from sale of property, plant and equipment, partially offset by $339 million in purchases of property, plant and equipment in connection with the continued expansion of our manufacturing facility in Fort Collins, Colorado.
Net cash used in investing activities for the two fiscal quarters ended May 4, 2014 was $111 million, primarily due to $125 million in purchases of property, plant and equipment in connection with the continued expansion of our manufacturing facility in Fort Collins, Colorado, partially offset by $14 million in cash proceeds from the sale of an investment in trading securities.

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Financing Activities

Net cash used in financing activities for the two fiscal quarters ended May 3, 2015 was $605 million. The net cash used in financing activities was principally due to $617 million of debt repayments and $188 million in payments of cash dividends to shareholders. These payments were partially offset by $130 million in net proceeds from the exercise of share options and purchases under our ESPP and an excess tax benefit of $70 million.

Net cash used in financing activities for the two fiscal quarters ended May 4, 2014 was $76 million. The net cash used in financing activities was principally due to $130 million of cash dividends paid to shareholders and $12 million to repurchase and cancel 0.3 million of our ordinary shares under our 2013 share repurchase program, partially offset by $53 million in net proceeds from the exercise of options and purchases under our ESPP, an excess tax benefit of $11 million and proceeds from research and development grants of $2 million.

Indebtedness

Term Loans and Revolving Credit Facility

In connection with the acquisition of LSI on May 6, 2014, Avago Technologies Finance Pte. Ltd and certain subsidiaries of the Company entered into the 2014 Credit Agreement. The 2014 Credit Agreement provides for Term Loans of $4.6 billion and the 2014 Revolving Credit Facility, in an aggregate principal amount of up to $500 million, and swingline loans of up to $75 million and the issuance of letters of credit of up to $100 million, both of which reduce the amount that may be borrowed under the 2014 Revolving Credit Facility. The Term Loans have a term of seven years and the 2014 Revolving Credit Facility has a term of five years.

In March 2015, we made a $593 million principal prepayment on the Term Loans and, as a result, we wrote-off $13 million of debt issuance costs to other income (expense), net in the unaudited condensed consolidated statements of operations.

As of May 3, 2015 and November 2, 2014, the outstanding balance of Term Loans was $4.0 billion and $4.6 billion, respectively, with an effective interest rate of 4.15%. As of May 3, 2015, there were no borrowings outstanding under the 2014 Revolving Credit Facility and outstanding letters of credit were not material. We were in compliance with the covenants described in the 2014 Credit Agreement as of May 3, 2015.

Convertible Senior Notes

In connection with the acquisition of LSI on May 6, 2014, the Company completed the private placement of $1 billion in aggregate principal amount of its Convertible Notes to the Purchasers. The Convertible Notes are the Company's unsecured senior obligations. The Convertible Notes pay interest semi-annually at a rate of 2.0% per year, payable in arrears on May 1 and November 1 of each year and will mature on August 15, 2021, unless repurchased, redeemed or converted in accordance with their terms prior to such date.

Subject to any limitations set forth in the Indenture, the Convertible Notes are convertible at any time until the close of business on the scheduled trading day immediately preceding the maturity date. Upon conversion, the Convertible Notes may be settled in our ordinary shares, cash or a combination of cash and ordinary shares, at the Company's option. The Convertible Notes were convertible at an initial conversion rate of 20.8160 ordinary shares per $1,000 principal amount of the Convertible Notes, which was equivalent to an initial conversion price of approximately $48.04 per ordinary share. The conversion rate is subject to adjustment under the terms of the Convertible Notes, including as a result of cash dividends on our ordinary shares in excess of $0.27 per share.

During the second half of fiscal year 2014 and the first two quarters of fiscal year 2015, quarterly dividends paid on our ordinary shares exceeded the dividend threshold for conversion price adjustment. As a result, as of May 3, 2015, the conversion rate had been adjusted to 20.8685 ordinary shares per $1,000 principal amount of the Convertible Notes, which is equivalent to a conversion price of approximately $47.92 per ordinary share. As of May 3, 2015, the "if-converted" value of the Convertible Notes exceeded the principal amount by $1.6 billion.

As of May 3, 2015, the Company had $1 billion in aggregate principal amount of the Convertible Notes outstanding. At May 3, 2015, the Company was in compliance with the covenants described in the Indenture.

Subsequent to the fiscal quarter ended May 3, 2015, the Purchasers submitted to the Company conversion notices exercising their right to convert all of the Convertible Notes that they hold. See "Note 13. Subsequent Events" in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Contractual Commitments

See "Note 10. Commitments and Contingencies" in Part I, Item 1 of this Quarterly Report on Form 10-Q.
There were no other material changes to our contractual commitments as of May 3, 2015 from those disclosed in our 2014 Annual Report on Form 10-K other than those updated in this Quarterly Report on Form 10-Q.

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Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at May 3, 2015 as defined in Item 303(a)(4)(ii) of Regulation S-K under the Exchange Act.

Indemnifications

See "Note 10. Commitments and Contingencies" in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Accounting Changes and Recent Accounting Standards

For a description of accounting changes and recent accounting standards, including the expected dates of adoption and estimated effects, if any, on our unaudited condensed consolidated financial statements, see "Note 1. Overview, Basis of Presentation and Significant Accounting Policies" in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information presented in Part II, Item 7A. “Quantitative and Qualitative Disclosures About Market Risk,” in our 2014 Annual Report on Form 10-K other than those noted below.

Interest Rate Risk

At May 3, 2015, we had $4 billion of Term Loans outstanding under our 2014 Credit Agreement, with an applicable interest rate that is based on a floating rate index. A 1.0% increase in the applicable interest rate would increase the interest expense for the next 12 months on our outstanding Term Loans by $40 million.

As of May 3, 2015, we had $1 billion in aggregate principal amount of the Convertible Notes outstanding. The Convertible Notes may be settled in our ordinary shares, cash or a combination of cash and ordinary shares, at our option. We do not have economic interest rate exposure related to the Convertible Notes, as they have a fixed annual interest rate of 2.0%. We do, however, have interest rate risk because the fair value of the Convertible Notes will generally increase when interest rates fall and decrease when interest rates rise. Additionally, the fair value of the Convertible Notes may be impacted by the price of our common stock. See Note 5. "Borrowings" and Note 13. "Subsequent Events" under Part I, Item 1 of this Quarter Report on Form 10-Q for additional information on the Convertible Notes.

Foreign Currency Derivative Instruments

We enter into foreign exchange forward contracts to hedge a portion of our exposures to changes in currency exchange rates as a result of our global operating and financing activities. Gains and losses from foreign currency transactions, as well as derivative instruments, were not significant for any period presented in the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

European Debt Exposures

We actively monitor our exposure to the European financial markets, including the impact of sovereign debt issues. We also mitigate our risk by investing in fixed deposits with various financial institutions and we limit the amount we hold with any one institution. We do not have any direct investments in the sovereign debt of European countries. From time to time, we may have deposits with major European financial institutions. We also mitigate collection risks from our customers by performing regular credit evaluations of our customers' financial condition and require collateral, such as letters of credit and bank guarantees, in certain circumstances. As of May 3, 2015, we do not believe that we have any material direct or indirect exposure to the European financial markets.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, evaluated the effectiveness of our disclosure controls and procedures as of May 3, 2015. We maintain disclosure controls and procedures that are intended to ensure that the information required to be disclosed in our Exchange Act filings is properly and timely recorded, processed, summarized and reported. These disclosure controls and procedures are also intended to ensure that information is accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures. Based on this evaluation, our CEO and CFO concluded that, as of May 3, 2015, our disclosure controls and procedures were effective at the reasonable assurance level.

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

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

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PART II — OTHER INFORMATION
Item 1. Legal Proceedings
Lawsuits Relating to the Acquisition of Broadcom
Following the announcement of our pending acquisition of Broadcom on May 28, 2015, four putative class action lawsuits were filed in the Superior Court of the State of California, County of Orange as of June 4, 2015 under the following captions: Xu v. Broadcom Corp., et al., Case No. 30-2015-00790689-CU-SL-CXC, filed June 1, 2015; Freed v. Broadcom Corp., et al., Case No. 30-2015-00790699-CU-SL-CXC, filed June 1, 2015; N.J. Building Laborers Statewide Pension Fund v. Samueli, et al., Case No. 00791484-CU-SL-CXC, filed June 4, 2015; and Yiu v. Broadcom Corp., et al., Case No. 00791490-CU-SL-CXC, filed June 4, 2015. A fifth putative class action was filed in the Superior Court of the State of California, County of Santa Clara, captioned Jew v. Broadcom Corp., et al., Case No. 115-CV-281353, filed June 2, 2015. The complaints name as defendants, among other parties, Avago, Broadcom, and members of Broadcom's board of directors, and allege, among other claims, that members of Broadcom's board breached their fiduciary duties by pursuing a flawed sale process and failing to obtain adequate consideration. The complaints further allege that Avago, among other parties, aided and abetted these purported breaches of fiduciary duty. The complaints seek, among other things, an order enjoining or rescinding the proposed acquisition and an award of attorney's and other fees and costs. We believe these claims are entirely without merit and intend to vigorously defend these actions.
Lawsuits Relating to the Acquisition of Emulex
On March 3, 2015, two putative shareholder class action complaints were filed in the Court of Chancery of the State of Delaware against Emulex, its directors, Avago Technologies Wireless (U.S.A.) Manufacturing Inc., or AT Wireless, and Emerald Merger Sub, Inc., or Merger Sub, captioned as follows: James Tullman v. Emulex Corporation, et al., Case No. 10743-VCL (Del. Ch.); Moshe Silver ACF/Yehudit Silver U/NY/UTMA v. Emulex Corporation, et al., Case No. 10744-VCL (Del. Ch.). On March 11, 2015, a third complaint was filed in the Delaware Court of Chancery, captioned Hoai Vu v. Emulex Corporation, et al., Case No. 10776-VCL (Del. Ch.). The complaints allege, among other things, that Emulex's directors breached their fiduciary duties by approving the Agreement and Plan of Merger, dated February 25, 205, by and among AT Wireless , Merger Sub and Emulex, or the Merger Agreement, and that AT Wireless and Merger Sub aided and abetted these alleged breaches of fiduciary duty. The complaints seek, among other things, either to enjoin the proposed transaction or to rescind it should it be consummated, as well as damages, including attorneys' and experts' fees. The Delaware Court of Chancery has entered an order consolidating the three Delaware actions under the caption In re Emulex Corporation Stockholder Litigation, Consolidated C.A. No. 10743-VCL. On June 5, 2015, the Court of Chancery dismissed the consolidated action without prejudice.
On April 8, 2015, a class action complaint was filed in the United States District Court for the Central District of California, entitled Gary Varjabedian, et al. v. Emulex Corporation, et al., No. 8:15-cv-554-CJC-JCG. The complaint names as defendants Emulex, its directors, AT Wireless and Merger Sub, and purports to assert claims under Sections 14(d), 14(e) and 20(a) of the Exchange Act. The complaint alleges that the Board of Directors of Emulex failed to provide material information and/or omitted material information from the Solicitation/Recommendation Statement on Schedule 14D-9 filed with the SEC on April 7, 2015 by Emulex, together with the exhibits and annexes thereto. The complaint seeks to enjoin the tender offer to purchase all of the outstanding shares of Emulex common stock, as well as certain other equitable relief and attorneys' fees and costs.
Lawsuits Relating to the Acquisition of PLX
In June and July 2014, four lawsuits were filed in the Superior Court for the State of California, County of Santa Clara challenging our acquisition of PLX. On July 22, 2014, the court consolidated these California actions under the caption In re PLX Technology, Inc. S'holder Litig., Lead Case No. 1-14-CV-267079 (Cal. Super. Ct., Santa Clara) and appointed lead counsel. That same day, the court also stayed the consolidated action, pending resolution of related actions filed in the Delaware Court of Chancery, described below.
Also in June and July 2014, five similar lawsuits were filed in the Delaware Court of Chancery. On July 21, 2014, the court consolidated these Delaware actions under the caption In re PLX Technology, Inc. Stockholders Litigation, Consol. C.A. No. 9880-VCL (Del. Ch.), appointed lead plaintiffs and lead counsel, and designated an operative complaint for the consolidated action. On July 31, 2014, counsel for lead plaintiffs in Delaware informed the court

that they would not seek a preliminary injunction, but intend to seek damages and pursue monetary remedies through post-closing litigation. Our acquisition of PLX closed on August 12, 2014.

On October 31, 2014, lead plaintiffs filed a consolidated amended complaint. This complaint alleges, among other things, that PLX’s directors breached their fiduciary duties to PLX’s stockholders by seeking to sell PLX for an inadequate price, pursuant to an unfair process, and by agreeing to preclusive deal protections in the merger agreement. Plaintiffs also allege that Potomac Capital Partners II, L.P., Deutsche Bank Securities, Avago Technologies Wireless (U.S.A.) Manufacturing, Inc. and the acquisition subsidiary aided and abetted the alleged fiduciary breaches. Plaintiffs also allege that PLX’s 14D-9 recommendation

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statement contained false and misleading statements and/or omitted material information necessary to inform the shareholder vote. The complaint seeks, among other things, monetary damages and attorneys' fees and costs. On November 26, 2014, defendants filed motions to dismiss the complaint for failure to state a claim as a matter of law. The motions were heard on April 15, 2015 and the Court has requested further briefing by June 15, 2015.
The Delaware class litigation is on-going.

Lawsuits Relating to the Acquisition of LSI

Fifteen purported class action complaints were filed by alleged stockholders of LSI against us. Eight of those lawsuits were filed in the Delaware Court of Chancery, and the other seven lawsuits were filed in the Superior Court of the State of California, County of Santa Clara on behalf of the same putative class as the Delaware actions, or the California Actions. On January 17, 2014, the Delaware Court of Chancery entered an order consolidating the Delaware actions into a single action, or the Delaware Action. These actions generally alleged that we aided and abetted breaches of fiduciary duty by the members of LSI's board of directors in connection with the merger because the merger was not in the best interest of LSI, the merger consideration was unfair and certain other terms of the merger agreement were unfair. Among other remedies, the lawsuits sought to rescind the merger or obtain unspecified money damages, costs and attorneys' fees.

On March 7, 2014, the parties to the Delaware Action reached an agreement in principle to settle the Delaware Action on a class wide basis, and negotiated a stipulation of settlement that was presented to the Delaware Court of Chancery on March 10, 2014. On March 12, 2014, the parties to the California Actions entered into a stipulation staying the California Actions pending resolution of the Delaware Action. On May 16, 2014, the plaintiffs in the Delaware Action filed a motion for final approval of the proposed settlement and award of attorneys' fees and expenses with the Delaware Court of Chancery. On June 10, 2014, the Delaware court approved the settlement, including the payment of $2 million to counsel for the stockholders, entered final judgment and dismissed the case, or the Order and Final Judgment. On July 10, 2014, a class member of the Delaware Action filed a notice of appeal from the Order and Final Judgment. On February 5, 2015, the appeal was dismissed with prejudice.

For a discussion of legal proceedings, please refer to "Note 10. Commitments and Contingencies" in Part I, Item 1 of this Quarterly Report on Form 10-Q. For an additional discussion of certain risks associated with legal proceedings, please see Item 1A. Risk Factors immediately below.

Item 1A. Risk Factors

Our business, operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our ordinary shares. We review and, where applicable, update our risk factors each quarter. The description set forth below supersedes the description of the risk factors previously disclosed in Part I, Item 1A of our 2014 Annual Report on Form 10-K. The following important factors, among others, could cause our actual results to differ materially from those expressed in forward-looking statements made by us or on our behalf in filings with the SEC, press releases, communications with investors and oral statements.

Risks Related to Our Business

The majority of our sales come from a small number of customers and a reduction in demand or loss of one or more of our significant customers may adversely affect our business.

We are dependent on a reasonably small number of direct customers, OEMs, or their contract manufacturers, and distributors for a majority of our business, revenue and results of operations, particularly in our wireless communications and enterprise storage segments. During the fiscal quarter and two fiscal quarters ended May 3, 2015, direct sales to Foxconn accounted for 21% and 24% of our net revenue, respectively, and our top 10 customers, which included three and four distributors, respectively, collectively accounted for 56% and 57% of our net revenue, respectively. During fiscal year 2014, direct sales to Foxconn accounted for 20% of our net revenue and our top 10 customers, which included three distributors, collectively accounted for 57% of our net revenue. However, we also believe our aggregate sales to Apple, Inc., when our direct sales to it are combined with indirect sales to the contract manufacturers that it utilizes, accounted for more than 10% of our net revenues for the fiscal quarter and two fiscal quarters ended May 3, 2015 and for fiscal year 2014. We expect to continue to experience significant customer concentration in future periods.

This customer concentration increases the risk of quarterly fluctuations in our operating results and sensitivity to any material, adverse developments experienced by our significant customers. In addition, our top customers' purchasing power has, in some cases, given them the ability to make greater demands on us with regard to pricing and contractual terms in general. We expect this trend to continue, which may adversely affect our gross margins on certain products. Although we believe that our relationships with our major customers are good, we generally do not have long-term contracts with any of them, which is typical of our industry. Our customers often provide us with medium- to long-term product roadmaps and related indications of their product needs and purchases on a periodic basis, but they generally purchase our products on a weekly or daily basis, often pursuant to purchase orders, and the relationship, as well as particular orders, can be terminated at any time without significant

penalty. To ensure availability of our products for some of our largest customers, we start manufacturing our products in advance of receiving purchase orders, based on our customers' forecasts. These forecasts are not binding purchase commitments and, as a result, we incur inventory and manufacturing costs in advance of anticipated sales. Since actual demand for our products may not match these forecasts, we may be subject to increased risks of high inventory carrying costs, product obsolescence and increased operating costs. In addition, the loss of, or any substantial reduction in sales to, any of our major direct or end customers could have a material adverse effect on our business, financial condition and results of operations.

The failure to complete our acquisition of Broadcom may adversely affect our business and our share price.

Our and Broadcom’s obligations to consummate our acquisition of Broadcom are subject to the satisfaction or waiver of certain customary conditions, including (i) approval of the Transaction by both our and Broadcom’s shareholders, (ii) the expiration or termination of the waiting period under the HSR Act, (iii) receipt of regulatory clearance under certain foreign anti-trust laws, (iv) the absence of any law or order prohibiting or restraining the Transaction or any law making the consummation of the Transaction illegal, (v) there being no event that has or would reasonably be expected to have a material adverse effect on either us or Broadcom, (vi) subject to certain exceptions, the accuracy of the representations and warranties of the parties in the definitive agreement, and (vii) performance by us and Broadcom of their respective obligations under the Broadcom Agreement. There can be no assurance that these conditions to the completion of the Transaction will be satisfied in a timely manner or at all. In addition, other factors, such as our ability to obtain the debt financing we need to consummate the Transaction, may affect when and whether the merger will occur. If our acquisition of Broadcom is not completed, our share price could fall to the extent that our current price reflects an assumption that the acquisition will be completed. Furthermore, if the acquisition is not completed, we may suffer other consequences that could adversely affect our business, results of operations and share price, including the following:

- we could be required to pay a termination fee of $1 billion to Broadcom under certain circumstances as described in the Broadcom Agreement;
- we could be required to pay a termination fee of approximately $333 million to Broadcom in the event our shareholders fail to approve the Transaction;
- we would have incurred significant costs in connection with the acquisition that we would be unable to recover;
- we may be subject to legal proceedings related to the acquisition;
- the failure to consummate the acquisition may result in negative publicity and a negative impression of us in the investment community; and
- any disruptions to our business resulting from the announcement and pendency of the acquisition, including any adverse changes in our relationships with our customers, vendors and employees, may continue or intensify in the event the merger is not consummated.

In addition, we would not realize any of the expected benefits of having completed the acquisition. Our pending acquisition of Broadcom, if completed, will be our largest acquisition to date, by a significant margin. The benefits we expect to realize from the acquisition of Broadcom are, necessarily, based on projections and assumptions about the combined businesses of Avago and Broadcom. Furthermore, if the acquisition closes, our ability to realize these benefits will depend, in part, on our ability to integrate the business of Broadcom successfully and efficiently with our business. Integration of the Broadcom business will be complex and time-consuming, will involve additional expense and could disrupt our business and divert management attention from ongoing business concerns.

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

Our growth strategy includes the acquisition of, and investment in, businesses that offer complementary products, services and technologies, augment our market coverage, or enhance our technological capabilities, such as our recent acquisitions of LSI, PLX and Emulex, and our pending acquisition of Broadcom. We may also enter into strategic alliances or joint ventures to achieve these goals. We cannot assure you that we will be able to identify suitable acquisition, investment, alliance, or joint venture opportunities, that we will be able to consummate any such transactions, or that such transactions will be successful. In addition, our original estimates and assumptions used in assessing any acquisition that we make may be inaccurate and we may not realize the expected financial or strategic

benefits of any such acquisition. From time to time, we may also divest portions of our business, both acquired or otherwise, that are no longer strategically important or exit minority investments, such as our dispositions of the Flash and Axxia Businesses, which could materially affect our cash flows and results of operations for the period in which such events occur.

Acquisitions and dispositions involve risks and uncertainties. For example, the integration of acquired businesses may not be successful and could result in disruption to other parts of our business. In addition, any such integration may require that we incur significant restructuring charges, including as a result of streamlining, or divesting non-core portions of, acquired

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businesses. To integrate acquired businesses, we must implement our management information systems, operating systems and internal controls, and assimilate and manage the personnel of the acquired operations. The difficulties of these integrations may be further complicated by such factors as the size of the business or entity acquired, geographic distances, lack of experience operating in the geographic markets or industry sectors of the acquired business, delays and challenges associated with integrating the business with our existing businesses, diversion of management's attention from daily operations of the business, potential loss of key employees and customers of the acquired business, the potential for deficiencies in internal controls at the acquired or combined business, performance problems with the acquired business' technology, difficulties in entering markets in which we have no or limited direct prior experience, exposure to unanticipated liabilities of the acquired business, insufficient revenues to offset increased expenses associated with the acquisition, and our potential inability to achieve the growth prospects and synergies expected from any such acquisition.

Any acquisition may also cause us to assume liabilities and ongoing lawsuits, acquire goodwill and other non-amortizable intangible assets that will be subject to impairment testing and potential impairment charges, incur amortization expense related to certain intangible assets, increase our expenses and working capital requirements, and subject us to litigation, which would reduce our return on invested capital. In addition, if the businesses or product lines that we acquire have a different pricing or cost structure than we do, such acquisitions may adversely affect our profitability and reduce our overall margin. Failure to manage and successfully integrate the acquisitions we make, or to improve margins of the acquired businesses and products, could materially harm our business, operating results and margins. Even when an acquired business has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely fashion or that all pre-acquisition due diligence will have identified all material issues that might arise with respect to such acquired business. Any dispositions we may make may also result in ongoing obligations to us following any such divestiture, for example as a result of any transition services or indemnities we agree to provide to the purchaser in any such transaction, which may result in additional expenses and may adversely affect our financial condition and results of operations.

Any future acquisitions we make may also require significant additional debt or equity financing, which, in the case of debt financing, would increase our leverage and potentially affect our credit ratings and, in the case of equity or equity-linked financing, would be dilutive to our existing shareholders. We incurred a significant amount of debt in connection with our acquisition of LSI, which is secured by the substantial majority of our assets, and expect to incur a significant amount of debt in connection with our pending acquisition of Broadcom. In addition, Emulex had $175 million of Emulex Notes outstanding as of May 5, 2015. Any downgrades in our credit ratings associated with an acquisition could adversely affect our ability to borrow by resulting in more restrictive borrowing terms. As a result of the foregoing, we also may not be able to complete acquisitions or other strategic transactions in the future to the same extent as in the past, or at all. These and other factors could harm our ability to achieve anticipated levels of profitability of acquired operations or realize other anticipated benefits of an acquisition, and could adversely affect our business, financial condition and results of operations.

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

We make significant decisions, including determining the levels of business that we will seek and accept, production schedules, levels of reliance on contract manufacturing and outsourcing, personnel needs and other resource requirements, based on our estimates of customer requirements. The short-term nature of commitments by many of our customers and the possibility of rapid changes in demand for their products reduces our ability to accurately estimate future customer requirements. Our results of operations could be harmed if we are unable to adjust our supply chain capacity to address market fluctuations, including those caused by the seasonal or cyclical nature of the markets in which we operate, or by other unanticipated events such as natural disasters. In addition, the sale of our products is dependent, to a large degree, on customers whose industries are subject to seasonal or cyclical trends in the demand for their products. For example, the smartphone market is particularly volatile and is subject to seasonality related to the calendar year-end holiday selling season, making demand difficult to anticipate.

From time to time, customers may require rapid increases in production, for example when they are ramping up for a new product launch, such as a new generation smartphone, which can challenge our resources and reduce margins. We

may not be able to purchase sufficient supplies or components or secure sufficient contract manufacturing capacity, including at our own internal manufacturing facilities, to meet such increases in product demand. This could harm our reputation, prevent us from taking advantage of opportunities, reduce revenue growth and subject us to additional liabilities if we are not able to timely satisfy customer orders.

In order to secure components for the production of our products, we may enter into non-cancelable purchase commitments with vendors or make advance payments to suppliers, which could reduce our ability to adjust our inventory or expense levels to declining market demands. Prior commitments of this type have resulted in an excess of parts when demand for our products has decreased. Downturns in the semiconductor industry have in the past caused, and may in the future cause, our customers to reduce significantly the amount of products ordered from us. If demand for our products is less than we expect, we may experience excess and obsolete inventories and be forced to incur additional charges. Conversely, if OEMs order more of our

products in any particular quarter than are ultimately required to satisfy end-customer demand, inventories at these OEMs may grow in such quarter, which could adversely affect our product revenues in a subsequent quarter as such OEMs would likely reduce future orders until their inventory levels realign with end-customer demand. In addition, because certain of our sales, research and development and internal manufacturing overhead expenses are relatively fixed, a reduction in customer demand may decrease our gross margins and operating income. See "A prolonged disruption of our manufacturing facilities, research and development facilities or other significant operations, or those of our suppliers, could have a material adverse effect on our business, financial condition and results of operations" for additional risks associated with the disruption of our supply chain.

We are making substantial capital investments in our Fort Collins, Colorado manufacturing facility to increase our capacity, however this may be insufficient to meet demand. Conversely, if we overestimate demand, we may not realize the benefit we anticipate from these investments.

We are continuing to expand our Fort Collins facility to support anticipated growth in sales of our proprietary products, particularly for our wireless communications segment, and to leverage our fixed costs. Unanticipated delays in this expansion could result in significant additional costs, and could result in us being unable to timely satisfy customer demand for the products we plan to manufacture at the expanded facility. Even with this expansion, our manufacturing capacity may be insufficient to meet demand. We are currently on product allocation for a number of our wireless FBAR filter products, as we have been unable to bring capacity online quickly enough to meet stronger than anticipated demand. If we underestimate customer demand, or if insufficient manufacturing capacity is available at this facility to satisfy customers' demands, we could forgo revenue opportunities, potentially lose market share, damage our customer relationships and be subject to litigation and additional liabilities, all of which could have a material adverse effect on our business, financial condition and results of operations. Conversely, if we overestimate customer demand we would experience excess capacity at this facility, which would result in increased fixed costs relative to the revenue we generate, which could adversely affect our results of operations.

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

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

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

The acquisition of LSI and the integration of its business, operations and employees with our own involves risks and the failure to integrate successfully in the expected time frame may adversely affect our future results.

Our ability to realize the anticipated benefits of the acquisition of LSI will depend on the timely integration and consolidation of organizations, operations, facilities, procedures, policies and technologies, and the harmonization of differences in the business cultures between the two companies and their personnel. The benefits we expect to realize from the acquisition of LSI are, necessarily, based on projections and assumptions about the combined businesses of Avago and LSI. The challenges involved in integrating LSI include:

- improving LSI's operating margins;

- modifications, if any, to tax structure;
- leveraging banking relationships; and
- rationalization of corporate structure.

Any failure to successfully complete the integration of the business, operations and employees of LSI, or to otherwise realize these benefits, could harm our results of operations.

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

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change and price erosion, evolving technical standards, frequent new product introductions, short product life cycles (for semiconductors and for many of the end products in which they are used) and wide fluctuations in product supply and demand. From time to time, these factors, together with changes in general economic conditions, cause significant upturns and downturns in the industry in general, and in our business in particular. Periods of industry downturns have been characterized by diminished demand for end-user products, high inventory levels and periods of inventory adjustment, under-utilization of manufacturing capacity, changes in revenue mix and accelerated erosion of average selling prices, resulting in an adverse effect on our business, financial condition and results of operations. We expect our business to continue to be subject to cyclical downturns even when overall economic conditions are relatively stable. To the extent we cannot offset recessionary periods or periods of reduced growth that may occur in the industry, or in our target markets in particular, through increased market share or otherwise, our business could be adversely affected, net revenues may decline and financial condition and results of operations may suffer. In addition, in any future economic downturn we may be unable to reduce our costs quickly enough to maintain our operating profitability.

We are dependent on a small number of markets, including the mobile handset market, which is volatile and is characterized by short product life cycles, fluctuations in demand, seasonality and increasingly high customer concentration, the hard disk drive market, the data center market and enterprise networking market, and dynamics in these industries could negatively impact our business or results of operations.

A substantial portion of our revenue is generated from sales of products for use in mobile handsets, particularly our FBAR filter products, the market for which is growing and becoming increasingly competitive. During the two fiscal quarters ended May 3, 2015, revenue from our wireless communications segment accounted for 38% of our net revenue. The mobile handset market is characterized by intense competition among an increasingly concentrated group of OEMs, rapidly evolving technology, including the shift to LTE and LTE-advanced standards, and changing consumer preferences. These factors result in the frequent introduction of new products, aggressive price competition, short product life cycles, and continually evolving mobile handset specifications. If we, our customers or mobile handset OEMs are unable to manage product transitions, our business and results of operations could be negatively affected. Our success in this market is dependent on the continued competitiveness of our FBAR filter products, and on the broad commercial acceptance of the mobile handsets into which our products are incorporated, as well as increasing the amount of our products in successive generations of those handsets. If the mobile handsets into which our products are designed do not achieve significant customer acceptance, our revenue will be adversely affected. Similarly, even though we may achieve design wins for a particular handset, we may not be designed into the next generation of a particular handset or new model of handset, which could result in a sharp decrease in our revenues.

In the mobile handset market, demand has historically been stronger in the second half of the year than the first half of the year. However, the timing of new handset launches, which also drive demand, is often unpredictable. If mobile handset OEMs inaccurately forecast consumer demand, this may lead to significant changes in orders to their component suppliers. We have experienced both sharp increases and decreases in orders within the same quarter, often with limited advance notice, and we expect them to occur in the future. In addition, although the worldwide wireless handset market is large, growth trends and other variables are often uncertain and difficult to predict. Since the wireless handset market is a consumer-driven market, changes in the economy that affect consumer demand can also adversely affect our business and operating results.

In addition, as a result of our acquisition of LSI, we also derive a substantial portion of our revenues from products used in HDDs. The HDD industry has experienced consolidation over the last few years, resulting in fewer design opportunities and HDD programs, and a corresponding increase in the significance of winning or losing any one design or program. Additionally, we believe that end-customers may be purchasing tablet computers, which use flash memory rather than HDDs to store data, as a substitute for purchasing a notebook computer containing an HDD. We do not currently provide controllers for flash memory used in tablet computers and further increases in sales of tablet computers could adversely affect our HDD revenues. Our acquisition of LSI has also resulted in us deriving a larger portion of our revenue from ASICs that we design and manufacture, particularly those for datacenter and enterprise

networking products, both of which are manufactured by an increasingly concentrated group of large OEMs.
Adverse global economic conditions could have a negative effect on our business, results of operations and financial condition and liquidity.
Adverse global economic conditions have from time to time caused or exacerbated significant slowdowns in the semiconductor industry generally, as well as in our target markets, which adversely affected our business and results of operations. In recent periods, market and business conditions in general have been adversely affected by investor and customer concerns about the global economic outlook, including concerns about economic recovery in the United States, the level of growth in China and conflict in Eastern Europe and the Middle East. Macroeconomic weakness and uncertainty also make it more difficult for us to accurately forecast revenue, gross margin and expenses. Sustained uncertainty about, or worsening of,

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current global economic conditions may cause our customers and consumers to reduce or delay spending (leading to reduced demand for our products), could lead to the insolvency of key suppliers (resulting in product delays) and customers, and could intensify pricing pressures. Any or all of these factors could negatively affect our business, financial condition and result of operations.

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

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

- the timing of launches by our customers of new products, such as mobile handsets, in which our products are included and changes in end-user demand for the products manufactured and sold by our customers;
- the timing of receipt, reduction or cancellation of significant orders by customers;
- fluctuations in the levels of component inventories held by our customers;
- customer concentration and the gain or loss of significant customers;
- utilization of our internal manufacturing facilities;
- fluctuations in manufacturing yields;
- the timing of acquisitions of, or making and exiting investments in, other entities, businesses or technologies;
- our ability to successfully and timely integrate, and realize the benefits of, our acquisitions of LSI, PLX and Emulex and any other significant acquisitions we may make, including our pending acquisition of Broadcom;
- interest rate and currency fluctuations;
- changes in our product mix or customer mix and their effect on our gross margin;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- the timing and extent of our non-product revenue, such as product development revenues and royalty and other payments from IP sales and licensing arrangements;
- new product announcements and introductions by us or our competitors;
- timing and amount of research and development and related new product expenditures, and the timing of receipt of any research and development grant monies;
- seasonality or cyclical fluctuations in our markets;
- significant warranty claims, including those not covered by our suppliers or our insurers;
- availability and cost of raw materials from our suppliers;
- IP disputes and associated litigation expenses;
- loss of key personnel or the shortage of available skilled workers;
- the effects of competitive pricing pressures, including decreases in average selling prices of our products; and
- changes in our tax incentive arrangements or structure, which may adversely affect our net tax expense in any quarter in which such an event occurs.

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

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

Our business is dependent on us winning competitive bid selection processes, known as “design wins,” to develop semiconductors for use in our customers' products. These selection processes are typically lengthy and can require us to incur significant design and development expenditures and dedicate scarce engineering resources in pursuit of a single customer opportunity. We may not win the competitive selection process and may never generate any revenue despite incurring significant design and development expenditures. These risks are exacerbated by the fact that many of our products, and the end products into which our products are incorporated, often have very short life cycles. For example, mobile handset manufacturers regularly introduce new or upgraded handsets, often every nine to 15 months and sometimes more frequently, and will bid out the components for each new model, and often every upgrade of a particular model. Similarly, many of our data storage products also have limited lives before they are replaced by products using newer technology. Failure to obtain a particular design win sometimes prevents us from offering successive generations of a product. This can result in lost revenues and could weaken our position in future competitive selection processes.

Winning a product design does not guarantee sales to a customer. We may experience delays in generating revenue from our products as a result of the lengthy development cycle typically required, or may not realize as much revenue as we had anticipated. In addition, a delay or cancellation of a customer's plans could materially and adversely affect our financial results, as we may have incurred significant expense in the design process and generated little or no revenue. Customers could choose at any time to stop using our products or may fail to successfully market and sell their products, which could reduce demand for our products, cause us to hold excess inventory and materially adversely affect our business, financial condition and results of operations.

The timing of design wins is unpredictable and implementing production for a major design win, or multiple design wins occurring at or around the same time, may strain our resources and those of our contract manufacturers. In such event we may be forced to dedicate significant additional resources and incur additional, unanticipated costs and expenses, which may have a material adverse effect on our results of operations.

Finally, some customers will not purchase any products from us, other than limited numbers of evaluation units, until they qualify the products and/or the manufacturing line for the products. The qualification process can take significant time and resources and we may not always be able to satisfy the qualification requirements of these customers. Delays in qualification or failure to qualify our products may cause a customer to discontinue use of non-qualified products or forgo future orders and result in a significant loss of revenue.

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

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

customers that develop their own IC products.

Our ability to compete successfully depends on elements both within and outside of our control, including industry and general economic trends. The actions of our competitors, particularly in the area of pricing, can have a substantial adverse impact on our revenues. During past industry downturns, competition in our target markets intensified as semiconductor manufacturers reduced prices to combat production overcapacity and high inventory levels. In industry downturns, manufacturers in financial difficulties or in bankruptcy may implement pricing structures designed to ensure short-term market share and near-term survival, rather than securing long-term viability.

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Our target markets may not perform as expected and our business and operating results could be harmed in such event.

Visibility into our target markets is limited and industry and target market growth rates may not be as forecasted. Any decline in our customers' markets would likely result in a reduction in demand for our products. In such an environment, pricing pressures could intensify and, if we were unable to respond quickly, could significantly reduce our gross margins and reduce our revenue. If target market growth rates are not as expected, particularly in areas such as LTE handsets, data centers and storage, to the extent that we incur expenditures on process and product development that do not align with projected market requirements, this could also have a material adverse effect on our business and results of operations.

Dependence on contract manufacturing and suppliers of critical components within our supply chain may adversely affect our ability to bring products to market, damage our reputation and adversely affect our results of operations.

We operate a primarily outsourced manufacturing business model that principally utilizes third-party foundry and module assembly and test capabilities. As a result, we are highly reliant on third-party foundry wafer fabrication capacity, including single-sourcing for many components or products. Most of our products are designed to be manufactured in a specific process, typically at one particular fab or foundry, either our own or with a particular contract manufacturer. For example, Taiwan Semiconductor Manufacturing Company Limited supplies a substantial amount of the wafers we use in our products. We also use contract manufacturers for a significant majority of our assembly and test operations, including ASE Korea Inc. and Inari Technology SDN BHD.

The ability and willingness of our contract manufacturers, foundries and materials providers, or, collectively, our suppliers, to perform is largely outside of our control. If one or more of our suppliers fails to perform its obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and to timely deliver products to our customers, and our reputation could suffer. Suppliers may extend lead times, limit supplies, increase prices or may discontinue parts due to capacity constraints, changes to manufacturing processes or other factors. We also depend on selected foundries to timely develop new, advanced manufacturing processes and we may be unable to deliver products to our customers if these new processes are not timely developed or we do not have sufficient access to them. For example, we have design wins based on manufacturing processes that are currently under development. If these processes are not developed on schedule, we may lose revenue opportunities and damage our relationships with our customers. Further, because of the limited competition among large foundries, it is possible that a particular foundry for products requiring these technologies will price their services at levels that have an adverse impact on our gross margins or make it unprofitable for us to offer these products. This limited competition among foundries may also make it more difficult for us to use a second foundry for a product when we believe that doing so would be advantageous.

Some components or parts are not readily available from alternate suppliers due to their unique design or the length of time necessary for design work. If one of our suppliers, particularly a single-source supplier, ceases to, or is unable to, manufacture such a component, or changes its manufacturing process, or if supply is otherwise constrained, we may need to source alternative parts, which may be difficult, expensive and take an extended period of time. We may also be forced to make a significant "lifetime" purchase of the affected component or part, in order to enable us to meet our customer demand, or to re-engineer a product. Significant lifetime purchases of such discontinued components could significantly increase our inventory and other expenses, such as insurance costs, and expose us to additional risks, such as the loss of, or damage to, products that may not subsequently be available to us from an alternative source. Such supply issues may also cause us to fail to timely meet customer demand. This could result in the payment of significant damages by us to our customers, and our net revenue could decline. In such events, our business, financial condition and results of operations would be adversely affected.

We review our supply chain on an ongoing basis and may seek to qualify second source manufacturers and suppliers for some components and products. However, only a limited number of foundries provide manufacturing services using the advanced technologies that we require. We may be unable to secure a second source or replacement foundry for some of our more advanced products. Qualifying such second sources, when available, may be a lengthy and potentially costly process and they may not produce as cost-effectively as our other suppliers, which would reduce our margins.

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

- inability of our manufacturers to develop and maintain manufacturing methods appropriate for our products, manufacturers' unwillingness or inability to devote adequate capacity to produce our products, and unanticipated discontinuation of, or changes to, their relevant manufacturing processes;
- inaccuracies in the forecasts of our product needs from our manufacturers;
- product and manufacturing costs that are higher than anticipated;
- reduced control over product reliability, quality, manufacturing yields and delivery schedules;
- difficulties in obtaining insurance to fully cover all business interruption risk in respect of our suppliers;
- more complicated supply chains; and

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• time, expense and uncertainty in identifying and qualifying additional or replacement manufacturers and suppliers.
Much of our outsourcing takes place in developing countries, and as a result may additionally be subject to geopolitical uncertainty. See "Our business, financial condition and results of operations could be adversely affected by the political and economic conditions of the countries in which we conduct business and other factors related to our international operations."

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

We purchase a significant portion of our semiconductor materials and finished goods from a few contract manufacturers and materials providers, some of which are single source suppliers. For the two fiscal quarters ended May 3, 2015, we purchased 53% of the materials for our manufacturing processes from five materials providers. For fiscal year 2014, we purchased 53% of the materials for our manufacturing processes from six materials providers. Substantially all of our purchases are on a purchase order basis, and we do not generally have long-term contracts with our contract manufacturers or materials providers. Our manufacturing processes rely on many materials, including silicon and GaAs and InP wafers, copper lead frames, precious metals, mold compound, ceramic packages and various chemicals and gases. From time to time, suppliers may extend lead times, limit supplies or increase prices due to commodity price increases, capacity constraints or other factors, which may lead to interruption of supply or increased demand in the industry. In the event that we cannot timely obtain sufficient quantities of components or raw materials at reasonable prices, the quality of the material deteriorates or we are not able to pass on higher materials or energy costs to our customers, our business, financial condition and results of operations could be adversely impacted.

A prolonged disruption of our manufacturing facilities, research and development facilities or other significant operations, or those of our suppliers, could have a material adverse effect on our business, financial condition and results of operations.

Although we operate using a primarily outsourced manufacturing business model, we also rely on the manufacturing facilities we own, in particular our GaAs fabs in Fort Collins, Colorado and Singapore, and our InP fab in Breinigsville, Pennsylvania and InP back-end assembly facility in Matamoros, Mexico. We use these internal fabrication facilities for products utilizing our innovative materials and processes, to protect our IP, to develop the technology for manufacturing and to ensure supply of certain components. Many of our facilities, and those of our suppliers, are located in the Pacific Rim region, which has above average seismic activity and severe weather activity. In addition, our research and development personnel are concentrated in a few locations, primarily China, India, Malaysia, Singapore, South Korea, Fort Collins, Colorado, San Jose, California, and Breinigsville and Allentown, Pennsylvania, with the expertise of the personnel at each such location tending to be focused on one or two specific areas.

A prolonged disruption at one or more of our production or research facilities for any reason, especially our Fort Collins, Singapore, Breinigsville and Matamoros facilities, or those of our suppliers, due to natural- or man-made disaster or other events outside of our control, such as widespread outbreaks of acute illness or the failure to maintain our labor force at one or more of these facilities, would limit our capacity to meet customer demands and delay new product development until a replacement facility and equipment, if necessary, were found. Any such event would likely disrupt our operations, delay production, shipments and revenue, and could materially and adversely affect our business. In addition, even if we are able to promptly resume production of our affected products, if our customers cannot timely resume their own manufacturing following such an event, they may cancel or scale back their orders from us and this may in turn adversely affect our results of operations. Such events could also result in significant expenses to repair or replace our affected facilities, and in some instances could significantly curtail our research and development efforts in a particular product area or target market.

We are also in the process of relocating our U.S. corporate headquarters to the former LSI campus in San Jose, CA, which could require us to incur significant expenses and may cause disruptions to our operations.

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

We depend on various IT systems, including networks, applications, internal IT systems and personnel, and outsourced services. We rely on third-party vendors to provide critical corporate infrastructure services, including certain services related to accounting, billing, human resources, benefit plan administration, IT network development and network monitoring. The ability of these third-party vendors to successfully provide reliable, high quality services is subject to technical and operational uncertainties that are beyond our control. While we may be entitled to damages if our vendors fail to perform under their agreements with us, our agreements with these vendors limit the amount of damages we may receive. In addition, we do not know whether we will be able to collect on any award of damages or that any such damages would be sufficient to cover the actual costs we would incur as a result of any vendor's failure to perform under its agreement with us. Upon expiration or

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

Any failure of these internal or third-party systems and services to operate effectively could disrupt our operations and could have a material adverse effect on our business, financial condition and results of operations by harming our ability to accurately forecast sales demand, manage our supply chain and production facilities, fulfill customer orders, and report financial and management information on a timely and accurate basis.

Our gross margin is dependent on a number of factors, including our product mix, customer mix, commodity prices, non-product revenue, acquisitions we may make and level of capacity utilization.

Our gross margin is highly dependent on product mix, with proprietary products and products sold into our industrial & other segment typically providing higher gross margin than other products. A shift in sales mix away from our higher margin products could adversely affect our future gross margin percentages. In addition, OEMs are becoming increasingly price conscious when they design semiconductors from third-party suppliers into their products. This sensitivity, combined with large OEMs' purchasing power, can lead to intense price competition among competing suppliers, which may require us to decrease our prices in order to win a design with an OEM customer. This can, in turn, adversely affect our gross margin. Our gross margin may also be affected by fluctuations in commodity prices, either directly in the price of the raw materials we buy, or as a result of price increases passed on to us by our suppliers. We do not hedge our exposure to commodity prices, some of which (including gold and fuel prices) are very volatile, and sudden or prolonged increases in commodities prices may adversely affect our gross margin.

Our gross margin is also affected by the timing and amount of our non-product revenue, including non-refundable payments from customers for research and development projects during product development and IP-related revenue such as licensing royalty payments and revenues from sales of IP. Our non-product revenue is generally high margin, but fluctuates significantly from quarter to quarter. Businesses or companies that we may acquire from time to time may have different gross margin profiles than us and could, therefore, also affect our overall gross margin.

In addition, semiconductor manufacturing requires significant capital investment, leading to high fixed costs, including depreciation expense. Although we outsource a significant portion of our manufacturing activities, we do retain some semiconductor fabrication facilities. If we are unable to utilize our owned fabrication facilities at a high level, the fixed costs associated with these facilities, such as depreciation expense, will not be fully absorbed, resulting in higher average unit costs and lower gross margins. In the past, we have experienced periods where our gross margins declined due to, among other things, reduced factory utilization resulting from reduced customer demand, reduced selling prices and a change in product mix towards lower margin devices. Increased competition and the existence of product alternatives, more complex engineering requirements, lower demand, reductions in our technological lead, compared to our competitors, and other factors may lead to further price erosion, lower revenues and lower margins for us in the future.

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

We have structured our operations to maximize the benefit from various tax incentives and tax holidays extended to us in various jurisdictions to encourage investment or employment. For example, we have obtained several tax incentives from the Singapore Economic Development Board, an agency of the Government of Singapore, which provide that certain classes of income we earn in Singapore are subject to tax holidays or reduced rates of Singapore income tax. Each such tax incentive is separate and distinct from the others, and may be granted, withheld, extended, modified, truncated, complied with or terminated independently without any effect on the other incentives. In order to retain these tax benefits in Singapore, we must meet certain operating conditions specific to each incentive relating to, among other things, maintenance of a treasury function, a corporate headquarters function, specified IP activities and specified manufacturing activities in Singapore. Some of these operating conditions are subject to phase-in periods through 2015. The Singapore tax incentives are presently scheduled to expire at various dates generally between 2015

and 2025. Renewals and extensions of such tax incentives are in the discretion of the Singapore government, and we may not be able to extend these tax incentive arrangements after their expiration on similar terms or at all. We may also elect not to seek to renew or extend certain tax incentive arrangements. Absent these tax incentives, the corporate income tax rate in Singapore that would otherwise apply to us would be 17%. In February 2010, the Malaysian government granted us a tax holiday on our qualifying Malaysian income, which is effective for 10 years beginning with our fiscal year 2009. The tax incentives that we have negotiated in Malaysia and other jurisdictions are also subject to our compliance with various operating and other conditions. If we cannot, or elect not to, comply with the operating conditions included in any particular tax incentive, we will lose the related tax benefits. In such event, we could be required to refund material tax benefits previously realized by us with respect to that incentive and, depending on the incentive at issue, could

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likely be required to modify our operational structure and tax strategy. Any such modified structure or strategy may not be as beneficial to us from an income tax expense or operational perspective as the benefits provided under the present tax concession arrangements. For fiscal years 2014, 2013 and 2012, the effect of all these tax incentives, in the aggregate, was to reduce the overall provision for income taxes by approximately $99 million, $77 million and $81 million, respectively, and increase diluted net income per share by $0.37, $0.31 and $0.33, respectively.

Our interpretations and conclusions regarding the tax incentives are not binding on any taxing authority, and if our assumptions about tax and other laws are incorrect or if these tax incentives are substantially modified or rescinded we could suffer material adverse tax and other financial consequences, which would increase our expenses, reduce our profitability and adversely affect our cash flows.

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

The semiconductor industry is characterized by companies holding large numbers of patents, copyrights, trademarks and trade secrets and by the vigorous pursuit, protection and enforcement of IP rights, including actions by patent-holding companies that do not make or sell products. From time to time, third parties assert against us and our customers and distributors their patent, copyright, trademark, trade secret and other IP rights to technologies that are important to our business.

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

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

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

We utilize a significant amount of IP in our business. If we are unable or fail to protect our IP, our business could be adversely affected.

Our success depends in part upon protecting our IP. To accomplish this, we rely on a combination of IP rights, including patents, copyrights, trademarks and trade secrets, as well as customary contractual protections with our customers, suppliers, employees and consultants. We may be required to spend significant resources to monitor and protect our IP rights, and even with significant expenditures we may not be able to protect our IP rights that are valuable to our business. We are unable to predict that:

- IP rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged, or, in the case of third-party IP rights, licensed or sub-licensed to us, be licensed to others;

- our IP rights will provide competitive advantages to us;

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

In addition, our competitors or others may develop products or technologies that are similar or superior to our products or technologies, duplicate our products or technologies or design around our protected technologies. Effective patent, trademark, copyright and trade secret protection may be unavailable or more limited in one or more relevant jurisdictions, relative to those protections available in the United States, may not be applied for or may be abandoned in one or more relevant jurisdictions. We may elect to abandon or divest patents or otherwise not pursue prosecution of certain pending patent applications, due to strategic concerns or other factors. In addition, when patents expire, we lose the protection and competitive advantages they provided to us.

We generate some of our revenue from licensing royalty payments and from technology claim settlements relating to certain of our IP, including IP we acquired from LSI. From time to time we pursue litigation to assert our IP rights, including, in some cases, against third parties with whom we have ongoing relationships, such as customers and suppliers. Conversely, third parties may pursue IP litigation against us, which may increase as a result of our IP licensing business. An adverse decision in such types of legal action could limit our ability to assert our IP rights and limit the value of our technology, including the loss of opportunities to sell or license our technology to others or to collect royalty payments based upon successful protection and assertion of our IP against others. In addition, such legal actions or adverse decisions could otherwise negatively impact our business, financial condition and results of operations.

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

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

Our future success depends on our ability to retain, attract and motivate qualified personnel, including our management, sales and marketing, legal and finance personnel, and especially our design and technical personnel. We also seek to acquire talented engineering and technical personnel through acquisitions we may make from time to time. We do not know whether we will be able to retain all of these employees as we continue to pursue our business strategy. We have historically encountered difficulties in hiring and retaining qualified engineers because there is a limited pool of engineers with expertise in analog and optoelectronic semiconductor design. Competition for such personnel is intense in the semiconductor industry, particularly in Southeast Asia where qualified engineers are in high demand. In addition, employees of companies or businesses that we acquire may decide not to continue working for us, with little or no notice, for reasons that may include dissatisfaction with our corporate culture, compensation or new roles and responsibilities. As the source of our technological and product innovations, our design and technical personnel represent a significant asset. The loss of the services of key employees, especially our key design and technical personnel, or our inability to retain, attract and motivate qualified design and technical personnel, could have a material adverse effect on our business, financial condition and results of operations.

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

From time to time, we may be subject to warranty or product liability claims that have lead, and may in the future lead, to significant expenses. Although we maintain reserves for reasonably estimable liabilities and purchase product liability insurance, our reserves may be inadequate to cover the uninsured portion of such claims. Conversely, in some cases, amounts we reserve may ultimately exceed our actual liability for particular claims and may need to be reversed.

Product liability insurance is subject to significant deductibles and there is no guarantee that such insurance will be available or adequate to protect against all such claims, or we may elect to self-insure with respect to certain matters. We may incur costs and expenses in the event of any recall of a customer's product containing one of our devices. The

process of identifying a recalled product in devices that have been widely distributed may be lengthy and require significant resources, and we may incur significant replacement costs, contract damage claims from our customers and reputational harm. Our customer contracts typically contain warranty and indemnification provisions, and in certain cases may also contain liquidated damages provisions, relating to product quality issues. The potential liabilities associated with such provisions are significant, and in some cases, including in agreements with some of our largest customers, are potentially unlimited. Any such liabilities may greatly exceed any revenues we receive from the relevant products. Costs, payments or damages incurred or paid by us in connection with warranty and product liability claims and product recalls could materially and adversely affect our financial condition and results of operations.

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

Highly complex products such as those we offer, may contain defects and bugs when they are first introduced or as new versions are released, or their release may be delayed due to unforeseen difficulties during product development. We have in the past experienced, and may in the future experience, such defects, bugs and delays. If any of our products contain defects or bugs, or have reliability, quality or compatibility problems, we may not be able to successfully design workarounds. Consequently, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers, attract new customers, and our financial results. In addition, these defects or bugs could interrupt or delay sales to our customers. To resolve these problems, we may have to invest significant capital and other resources. Although our products are tested by our suppliers, our customers and ourselves, it is possible that our new products will contain defects or bugs. If any of these problems are not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others. For example, if a delay in the manufacture and delivery of our products causes the delay of a customer's product delivery, we may be required, under the terms of our agreement with that customer, to compensate the customer for the adverse effects of such delays. In addition, these problems may divert our technical and other resources from other development efforts, and we would likely lose, or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers. As a result, our financial results could be materially and adversely affected.

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

We sell many of our products to customers through distributors who maintain their own inventory of our products for sale to dealers and end-customers. We limit distributor return rights and we allow limited price adjustments on sales to distributors. Price adjustments may be effected by way of credits for future product or by cash payments to the distributor either in arrears or in advance based on estimates. We recognize reserves for distributor rights related to these limited stock returns and price adjustments. We recognize revenues for sales to distributors upon delivery to the distributors, net of estimated provisions for these stock return and price adjustment programs. We have extended these programs to certain distributors in the United States, Asia and Europe and may extend them on a selective basis to some of our other distributors in these geographies. The reserves recognized for these programs are based on significant judgments and estimates, using historical experience rates, inventory levels in distribution, current trends and other factors, and there could be significant differences between actual amounts and our estimates. These programs may require us to deploy a substantial amount of cash to fund them. As of May 3, 2015 and November 2, 2014, we had an aggregate of approximately $33 million and $34 million, respectively, on deposit with various distributors to fund these programs. The timing and mix of payments and credits associated with such price adjustments could change over time, which could adversely affect our cash flows. Sales to distributors accounted for 20% and 25% of our net revenue for the two fiscal quarters ended May 3, 2015 and fiscal year 2014, respectively.

If our distributors are unable to sell an adequate amount of their inventory of our products in a given quarter to dealers and end-customers or if they decide to decrease their inventories for any reason, such as due to adverse global economic conditions or due to any downturn in technology spending, our sales to these distributors and our revenues may decline. We also face the risk that our distributors may purchase, or for other reasons accumulate, inventory levels of our products in any particular quarter in excess of future anticipated sales to end-customers. If such sales do not occur in the time frame anticipated by these distributors for any reason, these distributors may substantially decrease the amount of product they order from us in subsequent periods until their inventory levels realign with end-customer demand, which would harm our business and could adversely affect our revenues in such subsequent periods. Our reserve estimates associated with products stocked by our distributors are based largely on reports that our distributors provide to us on a weekly or monthly basis. To date, we believe this resale and channel inventory data has been generally accurate. To the extent that this data is inaccurate or not received in a timely manner, we may not be able to make reserve estimates for future periods accurately or at all.

We do not always have a direct relationship with the end-customers of our products sold through distributors. As a result, our products may be used in or for applications for which they were not necessarily designed or tested, including, for example, medical devices, and they may not perform as anticipated in such applications. In such event, failure of even a small number of parts could result in significant liabilities to us, damage our reputation and harm our business and results of operations.

Our effective tax rates may be adversely affected by reorganization or restructuring of our businesses, jurisdictional revenue mix, changes in tax regulations or policy and the outcome of audits and examinations, which could materially, adversely affect financial results.

We are a Singapore-based multinational company subject to tax in various tax jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions

where the ultimate tax determination is uncertain. Additionally, our calculations of income taxes are based on our interpretations of applicable tax laws in the jurisdictions in which we are required to file tax returns.
Our provision for income taxes is subject to volatility and could be adversely affected by numerous factors including:

- jurisdictional mix of our income and the resulting tax effects of differing tax rates in different countries;
- changes in the allocation of income and expenses, including adjustments related to changes in our corporate structure, acquisitions or tax law;
- tax effects of increases in non-deductible employee compensation;
- changes in transfer pricing regulations;
- changes in tax laws including, in the United States, changes to the taxation of earnings of non-U.S. subsidiaries, the deductibility of expenses attributable to non-U.S. income and non-U.S. tax credit rules;
- changes in accounting rules or principles and in the valuation of deferred tax assets and liabilities;
- outcomes of income tax audits; and
- expiration or lapses of tax credits or incentives.

We have adopted transfer-pricing policies between our affiliated entities. Our policies call for the provision of services, the sale of products, and licenses from one affiliate to another at prices that we believe are negotiated on an arm’s length basis. Our taxable income in any jurisdiction is dependent upon acceptance of our operational practices and intercompany transfer pricing by local tax authorities as being on an arm's length basis. Due to inconsistencies in application of the arm's length standard among taxing authorities, as well as lack of adequate treaty-based protection, transfer pricing challenges by tax authorities could, if successful, result in adjustments for prior or future tax years. As a result of these adjustments, we could become subject to higher taxes and our earnings and results of operations would be adversely affected in any period in which such determination is made.
Although we believe our tax estimates are reasonable, there is no assurance that the final determination of our income tax liability will not be materially different than what is reflected in our income tax provisions and accruals. Significant judgment is required to determine the recognition and measurement of tax liabilities prescribed in the relevant accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, which, if settled unfavorably, could adversely impact our provision for income taxes.
In addition, we are subject to, and are under, audit in various jurisdictions, and such jurisdictions may assess additional income tax against us. Although we believe our tax positions are reasonable, the final determination of tax audits could be materially different from our recorded income tax provisions and accruals. The ultimate results of an audit could have a material adverse effect on our results of operations and cash flows in the period or periods for which that determination is made.
The enactment of legislation implementing changes in U.S. taxation of international business activities, the adoption of other tax reform policies or changes in tax legislation or policies in jurisdictions outside the U.S. could materially impact our financial position and results of operations.
Tax bills are introduced from time to time to reform U.S. taxation of international business activities. The Organization for Economic Co-operation and Development also recently released draft guidance covering various topics, including country-by-country reporting, and definitional changes to permanent establishment, and is in the process of issuing guidance on Base Erosion and Profit Shifting, or BEPS, an initiative which aims to standardize and modernize global tax policy. Depending on the final form of guidance adopted and legislation ultimately enacted, if any, there may be significant consequences for us due to the large scale of our international business activities. For example, adoption of BEPS by foreign jurisdictions in which we operate could result in changes to tax policies, including transfer pricing policies which could ultimately impact our tax liabilities to foreign jurisdictions. If any of these proposals are enacted into legislation, or if other international, consensus-based tax policies and principles are amended or implemented, they could have material adverse consequences on the amount of tax we pay and thereby on our financial position and results of operations.
We make substantial investments in research and development to improve existing and develop new technologies to keep pace with technological advances and to remain competitive in our business, and unsuccessful investments could materially adversely affect our business, financial condition and results of operations.

The semiconductor industry is characterized by rapid technological change, changes in customer requirements, frequent new product introductions and enhancements, short product cycles and evolving industry standards, and requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. In addition, semiconductor products transition over time to increasingly smaller line width geometries. This requires us to adapt

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our products and manufacturing processes to these new technologies, which requires expertise in new procedures. Our failure to successfully transition to smaller geometry process technologies could impair our competitive position. In order to remain competitive, we have made significant investments in research and development, and anticipate that we will need to maintain or increase our levels of research and development expenditures. We expect research and development expenses to increase in absolute dollars for the foreseeable future, due to the increasing complexity and number of products we plan to develop. If we fail to develop new and enhanced products and technologies, if we focus on technologies that do not become widely adopted, or if new technologies that we do not support and that compete with technologies we do support become widely accepted, demand for our current and planned products may be reduced. Significant investments in unsuccessful research and development efforts could materially adversely affect our business, financial condition and results of operations. In addition, increased investments in research and development could cause our cost structure to fall out of alignment with demand for our products, which would have a negative impact on our financial results.

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

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

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

We sell our products throughout the world. In addition, as of May 3, 2015, approximately 54% of our employees are located outside of the United States. Multiple factors relating to our international operations and to particular countries in which we operate could have a material adverse effect on our business, financial condition and results of operations. These factors include:

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

A significant legal risk associated with conducting business internationally is compliance with various and differing anti-corruption and anti-bribery laws and regulations of the countries in which we do business, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar laws in China. In addition, the anti-corruption laws in various countries are constantly evolving and may, in some cases, conflict with each other. Our Code of Ethics and Business Conduct and other policies prohibit us and our employees from offering or giving anything of value to a government official for the purpose of obtaining or retaining business and from engaging in unethical business practices, including kick-backs to or from purely private parties. However, there can be no assurance that all of our

employees or agents will refrain from acting in violation of this and our related anti-corruption policies and procedures. Any such violation could have a material adverse effect on our business.

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

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

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

Our business is subject to various significant international and U.S. laws and other legal requirements, including packaging, product content, labor and import/export regulations. These regulations are complex, change frequently and have generally become more stringent over time. We may be required to incur significant expenses to comply with these regulations or to remedy violations of these regulations. In addition, because many of our products are regulated or sold into regulated industries, we must comply with additional regulations in marketing our products. Our products and operations are also subject to the rules of industrial standards bodies, like the International Standards Organization, as well as regulation by other agencies, such as the U.S. Federal Communications Commission. If we fail to adequately address any of these rules or regulations, our business could be harmed.

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

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

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

We also face increasing complexity in our product design and procurement operations as we adjust to new requirements relating to the materials composition of our products, including the restrictions on lead and certain other substances in electronics that apply to specified electronics products sold in the European Union as of July 1, 2006 under the Restriction of Hazardous Substances in Electrical and Electronic Equipment Directive. Other countries, such as the United States, China and Japan, have enacted or may enact laws or regulations similar to the EU legislation. Other environmental regulations may require us to re-engineer our products to utilize components that are more

environmentally compatible. Such re-engineering and component substitution may result in excess inventory or other additional costs and could have a material adverse effect on our results of operations.

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

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

We cannot predict:

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

Social and environmental responsibility regulations, policies and provisions, including, for example, regulations related to “conflict minerals,” may make our supply chain more complex and may adversely affect our relationships with customers.

There is an increasing focus on corporate social and environmental responsibility in the semiconductor industry, particularly with OEMs that manufacture consumer electronics. A number of our customers have adopted, or may adopt, procurement policies that include social and environmental responsibility provisions that their suppliers should comply with, or they seek to include such provisions in their procurement terms and conditions. An increasing number of participants in the semiconductor industry are also joining voluntary social responsibility initiatives such as the U.N. Global Compact, a voluntary initiative for businesses to develop, implement and disclose sustainability policies and practices. These social and environmental responsibility provisions and initiatives are subject to change, can be unpredictable, and may be difficult for us to comply with, given the complexity of our supply chain and our significant outsourced manufacturing. If we are unable to comply, or are unable to cause our suppliers or contract manufacturers to comply, with such policies or provisions, a customer may stop purchasing products from us, and may take legal action against us, which could harm our reputation, revenues and results of operations.

We are subject to rules adopted by the SEC requiring us to disclose whether certain minerals and metals, known as conflict minerals, used in our products originate from the Democratic Republic of Congo and its adjoining countries, or the DRC Region. In addition, as part of their corporate social and environmental responsibility programs, an increasing number of OEMs are seeking to source products that do not contain conflict minerals sourced from the DRC Region. This could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of semiconductor devices, including our products. Since our supply chain is complex, we are not currently able to definitively ascertain the origins of all of these minerals and metals used in our products. As a result, we may face difficulties in satisfying these customers' demands, which may harm our sales and operating results.

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

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

A breach of our security systems may have a material adverse effect on our business.

Our security systems are designed to maintain the physical security of our facilities and protect our customers', suppliers' and employees' confidential information, as well as our own proprietary information. However, we are also dependent on a number of third-party "cloud-based" and other service providers of critical corporate infrastructure services relating to, among other things, human resources, electronic communication services and certain finance functions, and we are, of necessity, dependent on the security systems of these providers. Accidental or willful security breaches or other unauthorized access by

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third parties of our facilities, our information systems or the systems of our cloud-based or other service providers, or the existence of computer viruses or malware in our or their data or software could expose us to a risk of information loss and misappropriation of proprietary and confidential information, including information relating to our customers and personal information of our employees. For example, Anthem, Inc., which provides health insurance to many of our U.S. employees, was recently the subject of a data security breach in which the personal information of a large number of current and former insureds was taken. In addition, we have, from time to time, also been subject to unauthorized network intrusions and malware on our own IT networks. Any such theft or misuse of confidential, personal or proprietary information as a result of such activities could result in, among other things, unfavorable publicity, damage to our reputation, loss of our trade secrets and other competitive information, difficulty in marketing our products, allegations by our customers that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for liabilities and damages related to the theft or misuse of such information, as well as fines and other sanctions resulting from any related breaches of data privacy regulations, any of which could have a material adverse effect on our business, profitability and financial condition. Since the techniques used to obtain unauthorized access or to sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

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

We are required to assess the effectiveness of our internal control over financial reporting annually, as required by Section 404 of the Sarbanes-Oxley Act. Our evaluation of the effectiveness of our internal control over financial reporting as of November 2, 2014 did not include the internal controls of LSI, which we acquired in May 2014, and PLX, which we acquired in August 2014. Even though, as of November 2, 2014, we concluded that our internal control over financial reporting (excluding LSI and PLX) was effective, we need to maintain our processes and systems and adapt them as our business grows and changes. This continuous process of maintaining and adapting our internal controls and complying with Section 404 is expensive, time-consuming and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404. Furthermore, as we grow our business or acquire other businesses, including LSI and PLX, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, either in our existing business or in businesses that we may acquire, could harm our operating results or cause us to fail to meet our reporting obligations. For example, we have migrated LSI's data and reporting onto our enterprise resource planning system. During the course of testing this migration we may discover problems with the conversion. Any such problems, may disrupt the accessibility or reliability of information necessary to provide timely, accurate information, which could cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses in our internal controls, the disclosure of that fact, even if quickly remedied, may cause investors to lose confidence in our financial statements and the trading price of our ordinary shares may decline.

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

Our financial condition and results of operations could be adversely affected by employee-benefit related costs and expenses.

We sponsor several defined benefit plans and post-retirement medical benefit plans. We are required to make contributions to these plans to comply with minimum funding requirements imposed by laws governing these employee benefit plans. The difference between the obligations and assets of these plans, or the funded status of these

plans, is a significant factor in determining our pension expense and the ongoing funding requirements of these plans. Weak economic conditions and related under-performance of asset markets could lead to increased pension and post-retirement benefit expenses. In the United States, we also self-fund our employees' health benefits. The costs of providing these benefits are unpredictable and have been increasing steadily and significantly in recent years. Also, a significant portion of our employees' cash compensation is performance-related, based on achievement of annual metrics, which can cause significant fluctuations in our employee compensation expense, and in cash flows in the period in which payment occurs. Significant increases in the costs of the benefits we provide to our employees could adversely affect our financial condition and results of operations.

As a result of the LSI acquisition, we assumed defined benefit pension plans under which we are obligated to make future contributions to fund benefits to participants. Most benefit accruals under the plans were frozen in 2009. The projected benefit obligations under these pension plans exceeded the value of the assets of those plans by approximately $440 million at the end

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of fiscal year 2014. We expect to have additional funding requirements with respect to the plans in future years and we may also choose to make additional, voluntary contributions to the plans. Depending on our cash position at the time, any such funding, or contributions to, our pension plans could impact our operating flexibility and financial position, including adversely affecting our cash flow for the quarter in which they are made.

In order to reduce the expense associated with these programs, where practicable, we are seeking to move defined benefit plans to defined contribution plans, or to cash out future retirees not yet receiving benefits, and to replace existing pension obligations with annuities. Any such changes may adversely affect our results of operations, including our profitability and cash flows.

Risks Relating to our Indebtedness

Our substantial indebtedness could adversely affect our financial health and our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate indebtedness and prevent us from fulfilling our obligations under our indebtedness.

As a result of our acquisition of LSI, we have a substantial amount of indebtedness outstanding, consisting of $4.0 billion in Term Loans, pursuant to the 2014 Credit Agreement, and $1 billion of our Convertible Notes. The 2014 Credit Agreement relating to the Term Loans also provides for our $500 million 2014 Revolving Credit Facility. The borrowers' obligations under the 2014 Credit Agreement are guaranteed by a number of our subsidiaries and are secured, subject to certain exceptions, by all the assets of the borrowers, and each subsidiary guarantor. Subject to restrictions in the 2014 Credit Agreement, we may incur additional indebtedness and expect to incur a significant amount of indebtedness in connection with our pending acquisition of Broadcom. In addition, there were $175 million aggregate principal amount of Emulex Notes outstanding when we completed the acquisition of Emulex. All of the Emulex Notes are convertible into cash at an increased conversion rate until June 30, 2015 under the make-whole fundamental change provision of the indenture relating to the Emulex Notes.

Our substantial indebtedness could have important consequences including:

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

The substantial majority of our debt will become due and payable at the end of its relevant seven-year term. In addition, if we were to experience a change of control, this would trigger an event of default under the 2014 Credit Agreement, which would permit the lenders to immediately declare the loans due and payable in whole or in part. In either such event, we may not have sufficient available cash to repay such debt at the time it becomes due, or be able to refinance such debt on acceptable terms or at all. Any of the foregoing could materially and adversely affect our business, financial condition and results of operations.

We receive debt ratings from the major credit rating agencies in the United States. Factors that may impact our credit ratings include debt levels, planned asset purchases or sales and near-term and long-term production growth opportunities. Liquidity, asset quality, cost structure, reserve mix and commodity pricing levels could also be considered by the rating agencies. A ratings downgrade could adversely impact our ability to access debt markets in the future and increase the cost of future debt and may adversely affect our share price. Failure to maintain a public corporate credit rating from each of Standard & Poor's and Moody's may result in a default under the 2014 Credit Agreement.

Our 2014 Credit Agreement imposes significant restrictions on our business.

The 2014 Credit Agreement contains a number of covenants imposing significant restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. The restrictions placed on us include limitations on the ability of our subsidiaries to:

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- incur additional indebtedness and issue preferred or redeemable shares;
- incur or create liens;
- consolidate, merge or transfer all or substantially all of their assets;
- make investments, acquisitions, loans or advances or guarantee indebtedness;
- transfer or sell certain assets;
- engage in sale and lease back transactions;
- pay dividends or make other distributions on, redeem or repurchase shares or make other restricted payments;
- engage in transactions with affiliates; and
- prepay certain other indebtedness.

In addition, if on the last day of any test period, the 2014 Revolving Credit Facility is drawn by more than 30% (other than with respect to undrawn letters of credit in an amount of up to $25 million), the 2014 Credit Agreement requires us to meet a first lien leverage ratio test. Our ability to meet this financial covenant may be affected by events beyond our control, and we do not know whether we will be able to maintain this ratio.

The foregoing restrictions could limit our ability to plan for, or react to, changes in market conditions or our capital needs. We do not know whether we will be granted waivers under, or amendments to, our 2014 Credit Agreement or the Indenture relating to the Convertible Notes, or the Indenture, if for any reason we are unable to meet these requirements, or whether we will be able to refinance our indebtedness on terms acceptable to us, or at all.

The breach of any of these covenants or restrictions could result in a default under the Indenture governing our Convertible Notes or our 2014 Credit Agreement. In addition, the 2014 Credit Agreement and the Indenture contain cross-default provisions that could thereby result in an acceleration of amounts outstanding under all those debt instruments if certain events of default occur under any of them. If we are unable to repay these amounts, lenders having secured obligations, including the lenders under our 2014 Credit Agreement, could proceed against the collateral securing that debt. Any of the foregoing would have a material adverse effect on our business, financial condition and results of operations.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on, to refinance our debt, and to make interest payments or other payments upon conversion of the Convertible Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to satisfy our obligations under the 2014 Credit Agreement, the Convertible Notes, the Emulex Notes and any future indebtedness we may incur and to make necessary capital expenditures. In addition, the Emulex Notes are subject to repurchase and may be converted for cash at an increased conversion rate through June 30, 2015. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our outstanding indebtedness or future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the Convertible Notes or future indebtedness.

Holders may convert their Convertible Notes at their option at any time prior to the scheduled maturity of the Convertible Notes. Upon conversion of the Convertible Notes, we may elect to deliver ordinary shares, cash or a combination of cash and shares in respect of the principal amounts thereof. Any conversion of the Convertible Notes prior to their maturity, or acceleration of the repayment of the Convertible Notes or future indebtedness after any applicable notice or grace periods could have a material adverse effect on our business, financial condition, results of operations and financial condition. Even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal amount of the Convertible Notes as a current rather than long-term liability, which would result in a material adverse impact on our consolidated financial statements. In addition, holders of the Convertible Notes will have the right to require us to repurchase their Convertible Notes upon the occurrence of a fundamental change at a purchase price equal to 100% of the principal amount of the Convertible Notes, plus accrued and unpaid interest, if any, up to, but not including, the

fundamental change repurchase date. Upon the occurrence of a make-whole fundamental change, we may be required to increase the conversion rate for the Convertible Notes converted in connection with such a make-whole fundamental change. If we are required to or otherwise make repurchases of Convertible Notes surrendered therefor or elect to pay cash in respect of Convertible Notes being converted, it may have a material adverse effect on our cash flows and on our results of operations, particularly for the period in which any such payment is made. In addition, our ability to repurchase the Convertible Notes or to pay cash upon conversions of the Convertible Notes may be limited by law, by regulatory authority or by

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agreements governing our future indebtedness. Our failure to repurchase Convertible Notes at a time when the repurchase is required by the Indenture or to pay cash payable on future conversions of the Convertible Notes as required by the Indenture would constitute a default under the Indenture. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Convertible Notes or make cash payments upon conversions thereof.

Risks Relating to Investments in Singapore Companies

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

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

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

We are incorporated in Singapore and our shareholders may have more difficulty in protecting their interest than they would as shareholders of a corporation incorporated in the United States, and we may have more difficulty attracting and retaining qualified board members and executives.

Our corporate affairs are governed by our memorandum and articles of association and by the laws governing corporations incorporated in Singapore. The rights of our shareholders and the responsibilities of the members of our board of directors, or our Board, under Singapore law are different from those applicable to a corporation incorporated in the United States. Therefore, our public shareholders may have more difficulty in protecting their interest in connection with actions taken by our management or members of our Board than they would as shareholders of a corporation incorporated in the United States. Legislation that would make significant changes to the Singapore Companies Act has recently been passed by the Singapore authorities, some of which alter the rights of shareholders that are currently provided under the Singapore Companies Act and our memorandum and articles of association. However, it is not yet certain when such amendments will become effective.

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

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

Under Singapore law, we may only allot and issue new ordinary shares with the prior approval of our shareholders in a general meeting. At our 2015 annual general meeting of shareholders, or AGM, our shareholders provided our directors with the general authority to allot and issue any number of new ordinary shares, which shall continue in force until the earlier of (i) the conclusion of our 2016 AGM, (ii) the expiration of the period within which the next annual general meeting is required by law to be held (i.e. within 15 months after the conclusion of the last general meeting) or (iii) the subsequent revocation or modification of such general authority by our shareholders at a general meeting. Subject to the general authority to allot and issue new ordinary shares provided by our shareholders, the provisions of the Singapore Companies Act and our memorandum and articles of association, our Board may allot and

issue new ordinary shares on such terms and conditions as they may think fit to impose. Any additional issuances of new ordinary shares by our directors may adversely impact the market price of our ordinary shares.

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Risks Relating to Owning Our Ordinary Shares

At times, our share price has been volatile and it may fluctuate substantially in the future, which could result in substantial losses for our investors as well as class action litigation against us and our management which could cause us to incur substantial costs and divert our management's attention and resources.

The trading price of our ordinary shares has, at times, fluctuated significantly. The trading price of our ordinary shares could be subject to wide fluctuations in response to many of the risk factors listed in this "Risk Factors" section, and others, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition and operating results;
- issuance of new or updated research or reports by securities analysts;
- fluctuations in the valuation and results of operations of our significant customers as well as companies perceived by investors to be comparable to us;
- announcements of proposed acquisitions by us or our competitors, including the announcement of our pending acquisition of Broadcom;
- announcements of, or expectations of additional debt or equity financing efforts;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and
- changes in our dividend or share repurchase policies.

These fluctuations are often unrelated or disproportionate to our operating performance. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our ordinary shares. You may not realize any return on your investment in us and may lose some or all of your investment. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. We are also the subject of a number of lawsuits stemming from our acquisitions of LSI, PLX, Emulex and Broadcom. Securities litigation against us, including the lawsuits related to the LSI, PLX, Emulex and Broadcom transactions, could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

Conversion of the Convertible Notes may dilute the ownership interest of existing shareholders, including holders who had previously converted their Convertible Notes, or may otherwise depress the price of our ordinary shares.

Under the terms of the Convertible Notes, we may elect to settle any conversions of the Convertible Notes in ordinary shares, cash or a combination of cash and shares. While we currently intend to settle the principal amount of any such conversions in cash, we may be unable or may elect not to do so. In such event, the conversion of some or all of the Convertible Notes into our ordinary shares will dilute the ownership interests of our existing shareholders to the extent we deliver shares upon conversion of any of the Convertible Notes. Based on the current effective conversion price, if all the Convertible Notes were converted into ordinary shares, this would result in the issuance of approximately 21 million additional shares. The Convertible Notes are convertible at any time and any sales in the public market of the ordinary shares issuable upon such conversion could adversely affect prevailing market prices of our ordinary shares. In addition, the existence of the Convertible Notes may encourage short selling by market participants because the conversion of the Convertible Notes could be used to satisfy short positions, or anticipated conversion of the Convertible Notes into our ordinary shares could depress the price of our ordinary shares.

The fundamental change and make-whole fundamental change provisions of the Convertible Notes, and the change of control provisions of our 2014 Credit Agreement may delay or prevent an otherwise beneficial attempt to take over our company.

The fundamental change purchase rights, which allow holders of our Convertible Notes to require us to purchase all or a portion of their Convertible Notes upon the occurrence of a fundamental change, and the provisions requiring an increase to the conversion rate for conversions in certain other circumstances, as well as the change of control provisions of the 2014 Credit Agreement, may have the effect of delaying or preventing a takeover of our company that would otherwise be beneficial to our shareholders or investors in the Convertible Notes.

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A substantial amount of our shares are held by a small number of institutional investors and significant sales of our ordinary shares in the public market by one or more of these holders could cause our share price to fall.
As of March 31, 2015, we believe that our five largest shareholders are institutional investors and that they hold over 35% of our outstanding ordinary shares in the aggregate. These institutional investors may sell their shares for a variety of reasons, including dissatisfaction with our short- or long-term results. These holders may sell their shares at any time and such sales could depress the market price of our ordinary shares, given the large amounts of our shares held by these investors. Such sales could also impair our ability to raise capital through the sale of additional equity securities.
There can be no assurance that we will continue to declare cash dividends or that we will repurchase shares.
Our Board has adopted a dividend policy pursuant to which the Company currently pays a cash dividend on our ordinary shares on a quarterly basis. The declaration and payment of any dividend is subject to the approval of our Board and our dividend may be discontinued or reduced at any time. Our 2014 share repurchase program expired on April 8, 2015. While our shareholders approved a share purchase mandate at our 2015 AGM, as of the date of this Quarterly Report on Form 10-Q our Board has not authorized a new program. Any such share repurchase program, if adopted, will not obligate us to repurchase any specific number of shares at any time, or at all. There can be no assurance that we will declare cash dividends or repurchase shares in the future in any particular amounts, or at all. Furthermore, we may declare dividends as interim dividends, which are wholly provisional under Singapore law and may be revoked by our Board at any time prior to the payment thereof.
Future dividends and share repurchases, if any, their timing and amount, as well as the relative allocation of cash between dividends and share repurchases, may be affected by, among other factors: our views on potential future capital requirements for strategic transactions, including acquisitions; earnings levels; contractual restrictions; cash position and overall financial condition; and changes to our business model. The payment of cash dividends is restricted by applicable law, contractual restrictions and our corporate structure. Pursuant to Singapore law and our articles of association, no dividends may be paid except out of our profits. Also, because we are a holding company, our ability to pay cash dividends on our ordinary shares and to repurchase our shares is limited by restrictions on our ability to obtain sufficient funds through dividends from subsidiaries, including restrictions under the terms of our 2014 Credit Agreement.
Singapore corporate law may impede a takeover of our company by a third-party, which could adversely affect the value of our ordinary shares.
The Singapore Code on Take-overs and Mergers contains provisions that may delay, deter or prevent a future takeover or change in control of our company for so long as we remain a public company with more than 50 shareholders and net tangible assets of S$5 million or more. Any person acquiring an interest, whether by a series of transactions over a period of time or not, either on their own or together with parties acting in concert with such person, in 30% or more of our voting shares, or, if such person holds, either on their own or together with parties acting in concert with such person, between 30% and 50% (both inclusive) of our voting shares, and such person (or parties acting in concert with such person) acquires additional voting shares representing more than 1% of our voting shares in any six-month period, must, except with the consent of the Securities Industry Council in Singapore, extend a mandatory takeover offer for the remaining voting shares in accordance with the provisions of the Singapore Code on Take-overs and Mergers. While the Singapore Code on Take-overs and Mergers seeks to ensure equality of treatment among shareholders, its provisions may discourage or prevent certain types of transactions involving an actual or threatened change of control of our company. These legal requirements may impede or delay a takeover of our company by a third-party, which could adversely affect the value of our ordinary shares.
Our actual operating results may differ significantly from our guidance.
From time to time, we release guidance regarding our future performance that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither any independent registered public accounting firm nor any other independent expert or outside party compiles, examines or reviews the guidance and, accordingly, no such person

expresses any opinion or any other form of assurance with respect thereto.

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

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

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

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

There were no sales of unregistered securities during the fiscal quarter ended May 3, 2015.

Issuer Repurchases of Equity Securities

There were no share repurchases during the fiscal quarter ended May 3, 2015. The 2014 share repurchase mandate expired on April 8, 2015.

At our 2015 annual general meeting of shareholders, or AGM, on April 8, 2015, our shareholders approved our 2015 share purchase mandate pursuant to which we are authorized, upon Board approval, to repurchase up to approximately 26 million of our ordinary shares in open market transactions or pursuant to equal access schemes, up to the date on which our 2016 AGM is held or required by law to be held, or the 2015 share purchase mandate. The 2015 share purchase mandate will expire upon the earlier of the date of our 2016 AGM or the date by which the 2016 AGM is required by law to be held, unless such period is extended, varied or revoked by our shareholders at a general meeting. As of the date of this Quarterly Report on Form 10-Q, the Board had not approved any repurchases of our ordinary shares pursuant to the 2015 share purchase mandate.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed with or incorporated by reference into this Quarterly Report on Form 10-Q.

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SIGNATURES

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

AVAGO TECHNOLOGIES LIMITED

By: /s/ Anthony E. Maslowski
Anthony E. Maslowski
Chief Financial Officer

Date: June 10, 2015

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference Herein		Filed Herewith
		Form	Filing Date	
2.1*	Agreement and Plan of Merger, dated December 15, 2013, by and among LSI Corporation, Avago Technologies Limited, Avago Technologies Wireless (U.S.A.) Manufacturing, Inc. and Leopold Merger Sub, Inc.	Avago Technologies Limited Current Report on Form 8-K/A (Commission File No. 001-34428).	December 16, 2013	
2.2*	Agreement and Plan of Merger, dated May 28, 2015, by and among Pavonia Limited, Avago Technologies Limited, Safari Cayman L.P., Avago Technologies Cayman Holdings Ltd., Avago Technologies Cayman Finance Limited, Buffalo CS Merger Sub, Inc., Buffalo UT Merger Sub, Inc. and Broadcom Corporation.	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428).	May 29, 2015	
3.1	Memorandum and Articles of Association	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428).	August 14, 2009	
4.1	Form of Specimen Share Certificate for Registrant's Ordinary Shares.	Amendment No. 3 to Avago Technologies Limited Registration Statement on Form S-1 (Commission File No. 333-153127)	July 14, 2009	
4.2	Indenture, dated as of May 6, 2014, between Avago Technologies Limited and U.S. Bank National Association as Trustee, related to 2.0% Convertible Senior Notes due 2021.	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428).	May 6, 2014	
4.3	Form of Note (included in Exhibit 4.2).	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428)	May 6, 2014	
4.4	Registration Rights Agreement, dated as of May 6, 2014, related to 2.0% Convertible	Avago Technologies Limited Current Report	May 6, 2014	

	Senior Notes due 2021 among Avago Technologies Limited, SLP Argo I Ltd. and SLP Argo II Ltd.	on Form 8-K (Commission File No. 001-34428).	
10.1+	Continuing Employment Offer Letter, dated June 3, 2015, between Avago Technologies Limited and Charlie Kawwas.		X
10.2+	Severance Benefits Agreement, dated June 3, 2015, between Avago Technologies Limited and Charlie Kawwas.		X

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Exhibit Number	Description	Incorporated by Reference Herein		Filed Herewith
		Form	Filing Date	
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			X
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
99.1	Support Agreement, dated as of May 28, 2015, by and among Pavonia Limited, Avago Technologies Limited and Dr. Henry T. Nicholas III (together with certain of his affiliated entities).	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428).	May 29, 2015	
99.1	Support Agreement, dated as of May 28, 2015, by and among Pavonia Limited, Avago Technologies Limited and Dr. Henry Samueli (together with certain of his affiliated entities).	Avago Technologies Limited Current Report on Form 8-K (Commission File No. 001-34428).	May 29, 2015	
101.INS†	XBRL Instance Document			X
101.SCH†	XBRL Schema Document			X
101.CAL†	XBRL Calculation Linkbase Document			X
101.DEF†	XBRL Definition Linkbase Document			X
101.LAB†	XBRL Labels Linkbase Document			X
101.PRE†	XBRL Presentation Linkbase Document			X

* Pursuant to Item 601(b)(2) of Regulation S-K promulgated by the SEC, certain exhibits and schedules to the Agreement and Plan of Merger have been omitted. Avago hereby agrees to furnish supplementally to the SEC, upon its request, any or all of such omitted exhibits or schedules.

\+ Indicates a management contract or compensatory plan or arrangement.

† Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Unaudited Condensed Consolidated Balance Sheets at May 3, 2015 and November 2, 2014, (ii) Unaudited Condensed Consolidated Statements of Operations for the fiscal quarter and two fiscal quarters ended May 3, 2015 and May 4, 2014, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income for the fiscal quarter and two fiscal quarters ended May 3, 2015 and May 4, 2014, (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the fiscal quarter and two fiscal quarters ended May 3, 2015 and May 4, 2014 and (v) Notes to Unaudited Condensed Consolidated Financial Statements.