

NETLOGIC MICROSYSTEMS INC
Form 10-K
February 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

For the Transition Period from _____ to _____

Commission File Number: 000-50838

NETLOGIC MICROSYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation)

77-0455244
(I.R.S. Employer Identification No.)

3975 Freedom Circle, Santa Clara,, California
(Address of principal executive office)

95054
(Zip Code)

(408) 454-3000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	The NASDAQ Stock Market LLC

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$2,541,493,929 (based on the last reported sale price of \$40.42 on June 30, 2011).

71,555,374 shares of the Registrant's common stock, par value \$0.01 per share, were outstanding as of January 31, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

Forward-looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which include, without limitation, statements about our future business operations and results, the market for our technology, our strategy and competition. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed forward-looking statements. For example, the words "believes", "anticipates", "plans", "expects", "intends" and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a discrepancy include, but are not limited to, those discussed in "Business", "Risks Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk" below. All forward-looking statements in this report are based on information available to us as of the date of this report, and we assume no obligation to update any such forward-looking statements. The information contained in this report should be read in conjunction with our condensed financial statements and the accompanying notes contained in this report. Unless expressly stated or the context otherwise requires, the terms "we", "our", "us" and "NetLogic Microsystems" refer to NetLogic Microsystems, Inc.

ITEM 1. BUSINESS.

Overview

We are a leading fabless semiconductor company that designs, develops and sells proprietary high-performance processors and high-speed integrated circuits that are used to enhance the performance, functionality and energy efficiency of advanced mobile wireless infrastructure, data center, enterprise, metro Ethernet, edge and core infrastructure networks. Our market-leading product portfolio includes high-performance multi-core communications processors, knowledge-based processors, high-speed 10/40/100 Gigabit Ethernet (GE) physical layer (PHY) devices, digital front-end processors, network search engines, and ultra low-power embedded processors. These products are designed into high-performance systems such as switches, routers, wireless base stations, access aggregation, radio network controllers, security appliances, networked storage appliances, service gateways and connected media devices offered by leading original equipment manufacturers (OEMs).

The products and technologies we have developed and acquired are targeted to enable our customers to develop systems that support the increasing speeds and complexity of Internet Protocol (IP) networks. We believe there is a growing need to include high-performance multi-core processors, knowledge-based processors, digital front-end processors and high speed physical layer devices in equipment as networks transition to all IP packet processing at increasing speeds and complexity.

During 2011, we broadened our product portfolio and strengthened our competitive positioning and research and development capabilities through the acquisition of Optichron, Inc. in April 2011, which added high-performance digital front-end processors for advanced 3G/4G wireless base stations to our product offering.

We continue to focus on strategically investing in our product development across multiple product families, scaling our business operations to support our growth, and successfully integrating the newly acquired Optichron business. In product development, we introduced new products in each of our primary product families, including new members of our XLP multi-core, multi-threaded communications processor family, our next generation NL10k and NL11k knowledge-based processors, and our new NLP1342 PHY product. We also continued our efforts to transition our

product portfolio of multi-core processing, knowledge-based processing and physical layer solutions to the advanced 40 nanometer (nm) process node. In order to support our growing business operations, we increased our number of employees worldwide by 113 and improved our processes and systems related to management information and enterprise resource planning systems to keep in pace with our breadth and scale of business while maintaining regulatory compliance.

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Pending Acquisition by Broadcom Corporation

On September 11, 2011, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Broadcom Corporation (“Broadcom”), and I&N Acquisition Corp., a wholly owned subsidiary of Broadcom (“Merger Sub”). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger Sub will merge with and into us (the “Merger”), with NetLogic Microsystems as the surviving corporation. As a result of the Merger, we will become a subsidiary of Broadcom.

Under the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of our common stock (other than (i) shares held by Broadcom, NetLogic Microsystems or any of their respective wholly owned subsidiaries and (ii) shares held by our stockholders who perfect their appraisal rights) will be converted into the right to receive \$50.00 in cash, without interest and less any applicable withholding taxes.

The Merger Agreement further provides for, subject to certain limited exceptions, (i) the assumption of all in-the-money options to acquire our common stock outstanding immediately prior to the effective time of the Merger held by our employees, (ii) the cash-out of all in-the-money stock options held by non-employees, (iii) the conversion of all unvested restricted stock units held by our employees into Broadcom restricted stock units and (iv) the cash-out of all unvested restricted stock units held by persons other than our employees.

We have made customary representations, warranties and covenants in the Merger 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, covenants to provide required information to regulatory agencies and to provide other requested cooperation and assistance in connection with the Merger Agreement and the transactions contemplated by it. Broadcom also has made customary representations, warranties and covenants in the Merger Agreement.

Consummation of the Merger remains subject to the satisfaction of customary closing conditions, other than conditions requiring stockholder approval of the Merger and required regulatory approvals and clearances, all of which have been satisfied as of the date of this report.

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Our Markets

Networking Systems. We sell our products primarily to OEMs that supply networking equipment for the Internet infrastructure, which consists of various networking systems that process packets of information to enable communication between the networks. This networking equipment includes routers, switches, application acceleration equipment, network security appliances, network access equipment and networked storage devices that are utilized by networking systems such as:

- core networks, for long-distance city-to-city communications which may span hundreds or thousands of miles;
- enterprise networks, for internal corporate communications, including access to storage environments;
- data center networks, for high-density server farms;
- metro networks, for intra-city communications which may span several miles;
- edge networks, which link core, metro, enterprise and access networks; and
- access networks, which connect individual users to the edge network.

Bandwidth-Hungry Applications. Sales of IP-based networking equipment continue to increase, as the usage of the Internet has continued to grow and evolve to accommodate the continued growth in the amount of digital media content available and provide converged support for the quad-play applications of voice, data, video and mobility over a single unified IP infrastructure. These applications include:

- Mobile Internet services (delivery of data, voice and video to mobile devices);
- cloud computing and data center virtualization;
- IP television, or IPTV;
- video on demand, or VoD;
- voice transmission over the Internet, or VoIP;
- on-line gaming;
- filtering of malware (e.g., virus, spyware and spam) and intrusion attempts;
- email communications;
- e-commerce;
- music, picture and video file downloading and sharing to mobile devices such as cell phones and portable music/video devices; and
- Internet browsing and video portal viewing delivered over the IP infrastructure to cell phones and other mobile devices.

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Network Awareness and Content Awareness. Due to the increased number of the connected Internet devices, the growth of Internet services and applications, as well as the greater complexity of the Internet-based infrastructure to support quad-play applications, OEM systems must increasingly process complex video, peer-to-peer, audio and data traffic that traverses the network more intelligently, more securely and at faster speeds using knowledge about the overall network. Such knowledge includes the method and manner in which networking systems are interconnected, as well as traffic patterns and congestion points, connection availability, user-based privileges, priorities and other attributes. These OEM systems also need knowledge about the content carried by the network and the applications that use the network. Using this knowledge of the network to make complex decisions about individual packets of information involves network awareness, while using knowledge of packet content to make complex decisions about individual packets of information involves content awareness, also known as deep-packet inspection. Network awareness and content awareness include the following:

- preferential transmission of packets based upon assigned priority;
- restrictions on access based upon security designations;
- changes to packet forwarding destinations based upon traffic patterns and bandwidth availability, or packet content; and
- addition or deletion of information about networks, users and applications.

Moreover, network and content awareness in advanced systems requires multiple classes of packet processing, in addition to forwarding packets in the network. These additional classes of processing include access control for network security and prioritization of packets to maintain quality of service (QoS) of internet traffic for transaction billing. Compared with the basic processing task of forwarding, these additional classes of packet processing require a significantly higher degree of processing of IP packets to enable network and content awareness, which we describe as network-aware and content-aware processing. Thus, networking equipment OEMs increasingly seek third party providers of advanced processing solutions that complement their core competencies to enable network and content awareness within their systems and meet their escalating performance requirements for rapid processing speeds, complex decision-processing capabilities, low power dissipation, small form factor and rapid time-to-market. These trends are driving the need for higher performance and more advanced knowledge-based processors, multi-core processors, digital front-end processors and PHY solutions that enable carriers and enterprises to upgrade their networks in a seamless manner.

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Our Strategy

Our objectives are to be the leading provider of network-aware and content-aware knowledge-based processing solutions, high-performance multi-core, multi-threaded communications processors, base station digital front-end processors and high speed PHY layer solutions, to networking OEMs and to expand into new markets and applications. To achieve these goals, we are pursuing the following strategies:

Maintain and Extend our Market and Technology Leadership Positions. We intend to expand our market and technology leadership positions by continuing to invest in the development of successive generations of our knowledge-based processors, multi-core communications processors, digital front-end processors, 10/40/100 Gigabit PHYs and our other products to meet the increasingly high performance needs of networking OEMs, as well as acquiring such capabilities through strategic partnerships and purchases of other businesses when we encounter favorable opportunities. We intend to leverage our engineering capabilities and continue to invest significant resources in recruiting and developing additional expertise in the areas of high performance circuit design, high-performance processor design, digital signal processing, custom circuit layout, high performance Input/Output interfaces, and applications engineering. By utilizing our proprietary design methodologies, we intend to continue to target the most demanding, advanced applications for our products.

Focus on Long-Term Relationships with Industry-Leading OEM Customers. The design and product life cycles of our OEM customers' products have traditionally been lengthy, and we work with our OEM customers at the pre-design and design stages. As a result, our sales process typically requires us to maintain a long-term commitment and close working relationship with our existing and potential OEM customers. This process involves significant collaboration between our engineering teams and theirs, and often involves the concurrent development of our products and theirs. We intend to continue to focus on building long-term relationships with industry-leading networking OEMs to facilitate the adoption of our products and to gain greater insight into the needs of our OEM customers.

Leverage Technologies to Create New Products and Pursue New Market Opportunities. We intend to leverage our core design expertise to develop our products for a broader range of applications to further expand our market opportunities. We plan to address new market segments that are increasingly adopting intelligent and secure network processing, such as corporate storage networks that use IP-based networking protocols. By utilizing our proprietary design methodologies, we intend to continue to target the most demanding, advanced applications for our products.

Capitalize on Highly Focused Business Model. We are a fabless semiconductor company, utilizing third parties to manufacture, assemble and test our products. This approach reduces our capital and operating requirements and enables us to focus greater resources on product development. We work closely with our wafer foundries to incorporate advanced process technologies in our solutions to achieve higher levels of performance and to reduce costs. These technologies include advanced 130, 110, 90, 80, 55, 40 and 28 nm complementary metal oxide semiconductor (CMOS) processing nodes with up to ten layers of copper interconnect and 300 millimeter wafer sizes. Our business model allows us to benefit from the large manufacturing investment of our wafer foundries which are able to leverage their investment across many markets.

Expand International Presence. We sell our products on a worldwide basis and utilize a network of direct sales, independent sales representatives and distributors in North America, Europe and Asia. We intend to continue to expand our sales and technical support organization to broaden our global customer reach. We believe that Asia, in particular China, and Europe, where we have already established customer relationships, provide the potential for significant additional long-term growth for our products. Given the continued globalization of OEM supply chains, particularly with respect to design and manufacturing, we believe that having a global presence will become increasingly important for securing new customers and design wins and to support OEMs in bringing their products to markets.

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Our Products

Our products include high-performance knowledge-based processors, multi-core communications processors, NETLite™ processors, network search engines, digital front-end processors, 10/40/100 GE PHY products, and ultra low-power Alchemy® processors.

Knowledge-based Processors

Knowledge-based processors are integrated circuits that employ an advanced processor architecture and a large knowledge or signature database containing information on the network, as well as applications and content that run on the network, to make complex decisions about individual packets of information traveling through the network. Our knowledge-based processors significantly enhance the ability of networking OEMs to supply network service providers with systems offering more advanced functionality for the Internet, such as support for Internet Protocol Version 6 (IPv6) networking, IPTV, VoIP, unified threat management (UTM), malware inspection, virtual private networks (VPNs), rich content delivery over mobile wireless networks, and streaming video and audio.

Our knowledge-based processors incorporate advanced technologies that enable rapid processing, such as a superscalar architecture, which uses parallel-processing techniques, and deep pipelining, which segments processing tasks into smaller sub-tasks, for higher decision throughput. These technologies enable wireline and wireless networking systems to perform a broad range of network-aware and content-aware processing functions, such as application-based routing, UTM network security, intrusion detection and prevention, virus inspection, access control for network security, prioritization of traffic flow to maintain quality of service and statistical measurement of Internet traffic for transaction billing.

Layer 3-4 Knowledge-based Processors. Layers 3 and 4 refer to the data and transport layers, respectively, of the Open Systems Interconnection (OSI) reference model. For networking infrastructure that supports Layer 3-4 routing, decisions on how to handle IP packets are made using the data that is contained in the packet header. The packet header information consists of key data regarding the packet, including the IP address of the system that generated the packet, referred to as the source IP address, and the IP address of the device to which the packet is to be transmitted, referred to as the destination IP address. Our proprietary knowledge-based processors operate in conjunction with an OEM-developed custom application-specific integrated circuits (ASIC), programmable logic devices, and one or more network processing units (NPUs), and advanced interface technology to enable networking OEMs to meet their system performance requirements for Layer 3-4 processing. We also provide unique customized versions of our proprietary interface knowledge-based processors that work with proprietary custom integrated circuits and application software developed by or in collaboration directly with our customers. We offer knowledge-based processors with a range of knowledge database sizes, and all of our knowledge-based processors are designed to be connected in groups to increase the knowledge database available for processing.

In 2011, we continued to collaborate with one of our long-time foundry partners Taiwan Semiconductor Manufacturing Company (TSMC) to migrate additional members of our knowledge-based processor, multi-core processor and 10/40/100 GE PHY families to the 40 nm process node, as well as our tape-out in the next-generation 28 nm process node. As part of this migration, we announced the new NL82048 processor which doubles the IPv6 processing capabilities for next-generation switches and routers, and complements the NL10k and NL11k knowledge-based processors which are also in the 40nm process node. The NL11k family integrates our serializer-deserializer (SerDes) technology from our PHY products to provide a serial interface that delivers 225 Gigabits per second (Gbps) of chip-to-chip interconnect bandwidth. This high performance input/output (I/O) bandwidth is particularly useful in processing IPv6.

NETL7™ Layer 7 Knowledge-based Processors. Our NETL7™ knowledge-based processors are designed to accelerate Layer 7 content processing and signature recognition tasks for enterprise and carrier-class networks. Layer 7 of the

OSI reference model, known as the application layer, facilitates communication between software applications and lower-layer network services. For networking infrastructure that supports Layer 7 routing, decisions on how to handle IP packets are made using the information that is contained in the packet payload or packet content. The packet content contains the actual data being transmitted between applications using the network.

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NETLite™ Processors and Network Search Engines

Our NETLite™ processor family is specifically designed for cost-sensitive, high-volume applications such as entry-level switches, routers and access equipment. The NETLite processor family leverages circuit techniques developed and refined during the design of our knowledge-based processor families, and benefits from die size optimization, lower power dissipation and redundant computing techniques. In addition, the NETLite processors utilize a simplified pipeline architecture, as compared to our knowledge based processors, that allows for lower cost manufacturing and assembly in less expensive packages, and allows for lower cost system designs. As such, the NETLite processors are ideal for entry-level systems that do not require the advanced parallel processing and deep pipelining performance of our high-end knowledge-based processors.

We also continue to provide network search engine products including those we acquired from IDT in July 2009, the TCAM2 products we purchased from Cypress Semiconductor Corporation in August 2007, and our legacy network search engines. We introduced our network search engine products between 1998 and 2001.

Multi-Core Communications Processors

We offer a range of high performance, highly integrated, feature-rich XLP®, XLR® and XLS® multi-core, multi-threaded communications processor solutions that provide high throughput, power efficiency, application and content awareness and security for the evolving global IP network. Each core in the multi-core processors operates as an independent central processing unit. These processors serve infrastructure equipment, enterprise systems and network storage markets within the global IP network with a wide range of features and performance configurations. Our multi-core, multi-threaded communications processors can replace a number of single-function semiconductors through a highly integrated processing solution that provides customers with greater ease of design and faster time-to-market for their products.

Our multi-core processors offer up to four-way multi-threading cores that allow each thread to act as a virtual central processing unit, or NXCPU™, thereby making each processor core capable of much higher throughput than a non-threaded core. The proprietary processor architecture also implements a high-speed Memory Distributed Interconnect® network, consisting of a Fast Messaging Network® and point-to-point interconnects, enabling high-speed communication between cores, accelerators and network interfaces and more efficient memory access. The processors also include Autonomous Acceleration Engines® that enable them to offload computationally intensive software code from the processing cores to an on-chip hardware component for faster and more power-efficient execution. As a result, our processors can perform multiple complex and specialized tasks such as network traffic prioritization and application and content inspection without utilizing processor core resources. In addition, all of our processors incorporate security processing engines or algorithms for secure connectivity and communications.

In the communications equipment market, our processor architecture integrates network accelerators, memory access accelerators, compression and decompression engines, and high performance network interconnects. This allows our customers to develop systems with fewer semiconductor components as well as systems that perform a broader range of functions. This level of integration eliminates the need for separate co-processors and digital signal processors and the associated complexity of software for each additional processing component.

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XLP® Processor Family. In 2011, we introduced additional members of our flagship XLP multi-core, multi-threaded communications processor family. Designed on TSMC's 40 nm process node, the XLP processor family offers scalability to 128 NXCPUs, each operating at up to 2.0 Giga Hertz (GHz) and over 160 programmable processing engines to deliver 160Gbps throughput and 240 million packets-per-second (Mpps) of intelligent application performance over the high-speed Inter-chip Coherency Interface™ (ICI) that offers cache and memory coherency to enable software applications to seamlessly run in Symmetric Multi Processing (SMP) or Asymmetric Multi-Processing (AMP) modes.

The XLP864 processor features 64 NXCPUs to deliver 80Gbps throughput and 120 million packets-per-second (Mpps) of intelligent application performance for next-generation 3G/4G mobile wireless infrastructure, metro Ethernet, security, storage, enterprise, edge and core infrastructure network applications. The XLP316 processor features a quad-core, 16-issue, 16-threaded, superscalar processor architecture with out-of-order execution and large L3 cache to address the communications control plane market. The XLP316L multi-core processor is highly optimized for 4G/LTE base stations and integrates specific hardware acceleration engines and interfaces for next-generation base station applications. The XLP316S processor combines our XLP multi-core processors with our NETL7 Layer 7 knowledge-based processing technology for advanced deep packet inspection applications in next-generation security appliances. The XLP316T processor integrates RAID 5/RAID 6 and storage de-duplication hardware acceleration, as well as high-speed Serial ATA (SATA) interfaces to address the rapidly growing storage-area networking (SAN) and network-attached storage (NAS) markets in data center, enterprise and small-to-midsize business (SMB) networks.

XLR® Processor Family. Our multi-core, multi-threaded XLR processor family is a high throughput, feature-rich processor solution for a wide variety of high-performance infrastructure equipment, enterprise networking, security and storage systems. The XLR processors enable applications, such as integrated security, convergence of voice, data and video applications (i.e., "triple play applications"), virtualized storage, load balancing and server offload, as well as content and application aware, multi-service routing and switching. All XLR processors are software- and pin-compatible and available in a variety of power options, enabling scalable system designs within a single platform.

XLS® Processor Family. Our XLS processor family offers mid- to entry-level derivative versions of our XLR's multi-core, multi-threaded architecture. The XLS processors leverage the XLR's performance, scalability and technology and incorporate additional advanced innovations. XLS processors address applications that demand smaller form factors and lower power consumption. Our XLS processors are pin compatible within each series and software compatible across all XLS and XLR processor families.

Digital Front-End Processors

Through our acquisition of Optichron in April 2011, we offer high-performance digital front-end (DFE) processors that enhance the linearization and signal-to-noise ratio performance of advanced wireless base stations. Our DFE processors support multiple signals and multiple protocols in a significantly wider bandwidth spectrum, coupled with the unique ability to span over non-contiguous bands. This is enabling service providers to upgrade the performance and functionality of existing base stations without the time and costs associated with deploying new base stations or antennas. In addition, our DFE processors offer intelligent self-adaptive technology that calibrates in real-time to real-world environments and variations, thereby accelerating and enhancing the manageability of LTE developments for Tier One original equipment manufacturers (OEMs).

The OP6100 family of digital front-end (DFE) processors delivers 65MHz of occupied bandwidth, 145MHz of total bandwidth and 325MHz of pre-distortion bandwidth for next-generation 3G and 4G/LTE base stations, remote radio heads (RRUs) and distributed antenna systems (DAS).

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10-100 Gigabit Ethernet Physical Layer Products

Our PHY family of products provides high-performance, single, dual and quad-channel low-power interface technology for high-density data communication and storage systems, and offers comprehensive support for multiple 10/40/100 GE standards. The PHY products also integrate advanced electronic dispersion compensation technology. We expect our PHY family of products to benefit from the same market drivers as our knowledge-based processors and multi-core communications processors, including growth in 10 GE ports in switches and routers, data center servers, upgrades of the telecom infrastructure to support IPTV, and the deployment of the 10/40/100 GE IP-backbone for advanced mobile wireless networks. In 2010, we announced the availability of the industry's lowest power 10/40/100 GE PHY solution, the NLP1342, and the industry's first dual-mode quad-port 10GBASE-KR and 40GBASE-KR4 backplane device, the NLP3342, that includes Energy Efficient Ethernet (EEE).

Ultra Low-Power Processor Family

Alchemy® Ultra-Low Power Embedded Processors. Our Alchemy® processor family consists of our industry leading embedded processors that deliver the powerful processing performance, ultra low-power functionality and market specific integration required for next-generation products like enterprise thin clients, automotive infotainment, telematics, and other media-rich embedded applications. Our ultra low-power embedded Alchemy processor cores are based on the standard MIPS® processor instruction set. We utilize very low power microprocessor design techniques and utilize low voltage and low leakage cell libraries, which allow us to incorporate high power efficient cores in our chips.

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Customers

The markets for networking, communications infrastructure, security and storage systems utilizing our products and services are mainly served by large OEMs, such as Alcatel-Lucent, Brocade Communications Systems, Inc., Cisco Systems, Inc., Dell Inc., Ericsson, Hewlett Packard Corporation, Huawei Technologies Co., Ltd., Juniper Networks, Inc., Tellabs, Inc., and ZTE Corporation.

We work with these and other OEMs to understand their requirements, and provide them with solutions that they then qualify and, in some cases, specify for use within their systems. While we sell directly to some OEMs, we also provide our products and services indirectly to other OEMs through their contract manufacturers, who in turn assemble our products into systems for delivery to our OEM customers. Sales to contract manufacturers accounted for 41%, 44%, and 43% of total revenue in 2011, 2010, and 2009, respectively. Sales of our products are generally made under short-term, cancelable purchase orders. As a result, our ability to predict future sales in any given period is limited and subject to change based on demand for our OEM customers' systems and their supply chain decisions.

We also provide our products and services indirectly to our OEM customers or their contract manufacturers through our international stocking sales representatives. Our stocking sales representatives are independent entities that assist us in identifying and servicing foreign networking OEMs and generally purchase our products directly from us for resale to OEMs or contract manufacturers located outside the U.S. In general, these international stocking sales representatives generally exclusively service a particular foreign region or customer base, and purchase our products pursuant to cancelable and re-schedulable purchase orders containing our standard warranty provisions for defects in materials, workmanship and product performance. At our option, defective products may be returned for their purchase price or for replacement. To date, our international stocking sales representatives have returned a small number of defective products to us. Our international stocking sales representatives may also act as a sales representative and receive commissions on sales of our products. Sales through our international stocking sales representatives accounted for 8%, 6%, and 6% of total revenue in 2011, 2010, and 2009, respectively. While we have purchase agreements with our international stocking sales representatives, they do not have long-term contracts with any of our OEM customers that use our products and services.

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We also use distributors to provide valuable assistance to end-users in delivery of our products and related services. Our distributors are primarily used to support our international sales logistic principally in Asia. In accordance with standard market practice, our distributor agreements generally limit the distributor's ability to return product up to a portion of its purchases in the preceding quarter and limit price protection for inventory on-hand if it subsequently lowers prices on our products. We recognize sales through distributors at the time of shipment to end customers as reported by our distributors. Sales through our distributors accounted for 4%, 5% and 2% of total revenue in 2011, 2010 and 2009, respectively.

For 2011, 2010, and 2009, our top five customers in terms of revenue accounted for approximately 57%, 58%, and 68%, respectively, of total product revenue. Although we believe our revenues will continue to be concentrated among our largest customers, we expect that continued favorable market trends, such as the increasing number of 10 Gigabit ports resulting as enterprises and datacenters upgrade their legacy networks to better accommodate the proliferation of video and virtualization applications, and the growing mobile wireless infrastructure and IPTV markets, will enable us to broaden our customer base. Additionally, we believe that our expanding product portfolio will also help us to further diversify our customer and product revenues further, as well as expand our offerings to our existing customers.

We maintain inventory, or "hubbing", arrangements with certain customers, including our largest customer, Cisco and its supplier, Wintec Industries. Pursuant to these arrangements, we deliver products to a customer, an intermediary or a designated third party warehouse based upon the customer's projected needs, but do not recognize product revenue unless and until the customer, intermediary or third-party warehouse reports that it has removed, or pulled, our product from the warehouse to be incorporated into the customers' end products. Historically, we have had reasonable visibility of these customers' requirements within a quarter, and we typically commit resources and incur expenses based on our projections. Therefore, if a customer that uses a hubbing arrangement does not take delivery of products in accordance with the schedule it originally provided to us, our predicted future revenue stream may vary substantially from our forecasts, and our results of operations could be materially and adversely affected because we typically commit resources and incur expenses based on our projections. In addition, although we own the inventory physically located at these hubs, our ability to effectively manage inventory levels may be restricted, causing our total inventory levels to increase. This, in turn, could increase our expenses associated with excess and obsolete product and negatively impact our cash flows.

In the normal course of business, we have agreed to indemnify our customers with respect to liabilities associated with the infringement of other parties' technology based upon their products. The duration of such indemnification obligations varies and, in certain cases, is indefinite. We have undertaken specified obligations in the event of an epidemic product failure under master purchase agreements with certain customers. In the event of an epidemic product failure, our obligations under these arrangements may have a material impact on our results of operations or financial condition.

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Sales, Marketing and Distribution

Our sales and marketing strategy is to achieve design wins with leaders and emerging participants in the networking, communications infrastructure, data center, storage, and security systems market and to maintain these design wins primarily by offering leading-edge products and superior customer service. We focus our marketing and sales efforts at a high organizational level of our potential customers to access key decision makers. In addition, as many targeted OEMs design custom integrated circuits to interface to our products, we believe that applications support at the early stages of design is critical to reducing time-to-market and minimizing costly redesigns for our customers.

Our product sales cycles can take over 24 months to complete, requiring a significant investment in time, resources and engineering before realization of income from product sales, if at all. Such long sales cycles mean that OEM customers' vendor selections, once made, are normally difficult to change. As a result, a design loss to the competition can negatively impact our financial results for several years. Similarly, design wins can result in an extended period of revenue opportunities with that customer.

We market and sell our products through our direct sales force, distributors, and through independent sales representatives throughout the world. Our direct sales force is dedicated to enhancing relationships with our customers. We supplement our direct sales force with independent sales representatives, who have been selected based on their understanding of our targeted customers' systems market and their level of penetration at our target OEM customers. We also use application engineers to provide technical support and design assistance to existing and potential customers.

Our marketing group is responsible for market and competitive analyses and defining our product roadmaps and specifications to take advantage of market opportunities. This group works closely with our research and development group to align development programs and product launches with our OEM customers' schedules. Additionally, this group develops and maintains marketing materials, training programs and our web site to convey our benefits to our targeted OEMs.

We operate in one business segment and primarily sell our products directly to customers in the United States, Asia and Europe. Sales for the geographic regions reported below are based upon the location to which we ship. The following is a summary of the geographic information related to revenues for the years ended December 31, 2011, 2010 and 2009:

	Year ended December 31,					
	2011		2010		2009	
Revenue:						
United States	20	%	18	%	25	%
China	48	%	38	%	27	%
Malaysia	13	%	26	%	31	%
Other	19	%	18	%	17	%
Total	100	%	100	%	100	%

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Research and Development

We devote substantial resources to the development of new products, improvement of existing products and support of the emerging requirements of our targeted customers. We have assembled a team of product designers possessing extensive experience in system architecture, analog and digital circuit design, hardware reference board design, software architecture and driver design and advanced fabrication process technologies. Our engineering design teams are located in Santa Clara, California, Austin, Texas, Beijing, China and Bangalore and Mumbai, India. As of December 31, 2011, we had approximately 485 employees engaged in research and development worldwide. Our research and development expenses were \$153.5 million, \$127.7 million, and \$73.6 million for the years ended December 31, 2011, 2010, and 2009, respectively.

We use a number of standard design tools in the design, manufacture and verification of our products. Due to the highly complex design requirements of our products, we typically supplement these standard tools with our own tools to create a proprietary design method that allows us to optimize the performance of our products at the circuit-level.

Manufacturing and Materials

We design and develop all of our products and electronically transfer our proprietary designs to third party wafer foundries to manufacture our products. Wafers processed by these foundries are shipped to our subcontractors, where they are assembled into finished products and electronically tested before delivery to our customers. We believe that this manufacturing model significantly reduces our capital requirements and allows us to focus our resources on the design, development and marketing of our products.

Our principal wafer foundry is TSMC in Taiwan. We are actively involved with product development on next-generation processes, and are designing products on TSMC's most advanced logic processes. The latest generation of our products employs up to ten layers of copper interconnect and 300 millimeter wafer sizes.

Our products are designed to use industry standard packages and be tested using widely available automatic test equipment. We develop and control product test programs used by our subcontractors based on our product specifications. We principally rely on Amkor Technology, Inc. in Korea, Philippines, and Taiwan, Advanced Semiconductor Engineering, Inc. in Taiwan, and King Yuan Electronics Co., Ltd. in Taiwan to assemble and test our products. We also rely on JSI Shipping to provide certain logistics management services. We also have an office in Taiwan that employs local personnel to work directly with our Asian wafer manufacturers and assembly and test houses to facilitate manufacturing operations.

We have designed and implemented an ISO9001-certified quality management system that provides the framework for continual improvement of our products, processes and customer service. We apply well-established design rules and practices for CMOS devices through standard design, layout and test processes. We also rely on in-depth simulation studies, testing and practical application testing to validate and verify our products. We emphasize a strong supplier quality management practice in which our manufacturing suppliers are pre-qualified by our operations and quality teams. To ensure consistent product quality, reliability and yield, we closely monitor the production cycle by reviewing electrical, parametric and manufacturing process data from each of our wafer foundries and assembly subcontractors.

We currently do not have long-term supply contracts with any of our significant third party manufacturing service providers. We generally place purchase orders with these providers according to terms and conditions of sales which specify price and 30-day payment terms and which limit the providers' liability.

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Competition

The markets for our products are highly competitive. We believe that the principal bases of competition are:

- processing speed and performance;
- power dissipation;
- capacity of the knowledge or signature database that can be processed;
- advanced product features allowing OEM and system customer product differentiation;
- price;
- product availability and reliability;
- customer support and responsiveness;
- timeliness of new product introductions; and
- credibility in designing and manufacturing products.

We believe that we compete favorably on each of the bases identified above. However, some of our competitors have greater financial resources and a longer track record as a semiconductor supplier than we do. We anticipate that the market for our products will be subject to rapid technological change. As we enter new markets and pursue additional applications for our products, we expect to face competition from a larger number of competitors. Within our Layer 2-4 knowledge-based processor, NETLite and network search engine markets, we primarily compete with Renesas Technology, Corp. In the Layer 7 knowledge-based processor market, we primarily compete with certain divisions of LSI Corporation and Cavium Networks, Inc. In the 10-Gigabit Ethernet physical layer market, we primarily compete with certain divisions of Applied Micro Circuits Corporation, Broadcom Corporation, Marvell Technology Group Ltd., Cortina Systems, Inc. and Vitesse Semiconductor Corporation. In the multi-core communications processor market, we primarily compete with Applied Micro Circuits Corporation, Advanced Micro Devices, Inc., Cavium Networks, Inc., Freescale Semiconductor, Inc., Intel Corporation, LSI Corporation, Marvell Technology Group Ltd., and PMC-Sierra, Inc. In the digital front-end processing market, we primarily compete with Altera Corporation, Texas Instruments Inc. and Xilinx Inc. We expect to face competition in the future from our current competitors, other manufacturers and designers of semiconductors, including large integrated device manufacturers, and innovative start-up semiconductor design companies.

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Intellectual Property

Our success and future growth will depend, in part, on our ability to protect our intellectual property. We rely primarily on patent, copyright, trademark and trade secret laws to protect our intellectual property. We also attempt to protect our trade secrets and other proprietary information through agreements with our customers, suppliers, employees and consultants and through security protection of our computer network and physical premises. However, these measures may not provide meaningful protection for our intellectual property. While our patents and other intellectual property rights are important, we believe that our technical expertise and ability to introduce new products in a timely manner will also be important factors in maintaining our competitive position.

As of January 31, 2012, we held 610 issued patents comprising 571 issued U.S. patents and 39 issued foreign patents and international registrations with expiration dates ranging from 2014 to 2030. We also have numerous patent applications pending in the U.S. and abroad. We may not receive any additional patents as a result of these applications or future applications. Nonetheless, we continue to pursue the filing of additional patent applications. Any rights granted under any of our existing or future patents may not provide meaningful protection or any commercial advantage to us.

Many participants in the semiconductor industry have a significant number of patents and have frequently demonstrated a willingness to commence litigation based on allegations of patent and other intellectual property infringement. From time to time, we have received, and expect to continue to receive, notices of claims of infringement or misappropriation of other parties' proprietary rights. In the event any such claims result in legal actions, we cannot assure you that we will prevail in these actions, or that other actions alleging infringement by us of third party intellectual property rights, misappropriation or misuse by us of third party trade secrets, or invalidity or unenforceability of our patents will not be asserted against us or that any assertions of infringement, misappropriation, misuse, invalidity or unenforceability will not materially and adversely affect our business, financial condition and results of operations.

We intend to protect our rights vigorously, but there can be no assurance that our efforts will be successful. Thus, despite our precautions, a third party may copy or otherwise obtain and use our products, services or technology without authorization, develop similar technology independently or design around our patents. In addition, effective patent, copyright, trademark and trade secret protection may be unavailable or limited in certain foreign countries. Moreover, we often incorporate the intellectual property of third parties into our designs, which is subject to certain obligations with respect to the non-use and non-disclosure of such intellectual property. We cannot assure you that the steps we have taken to prevent infringement, misappropriation or misuse of our intellectual property or the intellectual property of third parties will be successful. Furthermore, enforcement of our intellectual property rights may divert the efforts and attention of our management team and may be costly to us.

In addition to our own intellectual property, we also rely on third-party technologies for the development of our products. We license certain technology from MIPS Technologies, Inc., pursuant to a license agreement entered into in July 2003 wherein RMI was granted a non-exclusive, worldwide license to MIPS Technologies' micro-processor core technology to develop, implement and use in its products. The term of the agreement will expire in July 2017. The agreement permits us to continue selling in perpetuity products developed during the term of the agreement containing the licensed technology.

Employees

As of December 31, 2011, we had 758 employees worldwide, including 485 in research and development, 82 in operations, 140 in sales and marketing and 51 in general and administrative. None of our employees are covered by collective bargaining agreements. We believe our relations with our employees are good.

Available Information

We organized our business in 1995 as a California limited liability company and incorporated in Delaware in 2000. Our Web site address is www.netlogicmicro.com. The information on our Web site is not incorporated by reference into this report. Through a link on the Investor Relations section of our Web site, we make available our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission.

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ITEM 1A. RISK FACTORS.

If any of the following risks actually occur, our business, results of operations, financial condition or stock price could suffer significantly.

We derive most of our revenue from sales of products for use predominantly in networking systems, and if demand for these products does not grow, we may not achieve our growth and strategic objectives.

Our products are used primarily in networking systems, including routers, switches, network access equipment and networked storage devices. We believe our future business and financial success depends on continued market acceptance and increasing sales of our products. In order to meet our growth and strategic objectives, networking and communications infrastructure OEMs must continue to incorporate, and increase the incorporation of, our products into their systems as their preferred means of enabling network-aware processing of IP packets, and the demand for their systems must grow as well. We cannot provide assurance that sales of products will increase substantially in the future or that the demand for our customers' systems will increase as well. Our future revenues from these products may not increase in accordance with our growth and strategic objectives if the OEM customers modify their current product designs or select products sold by our competitors instead. Thus, the future success of this part of our business depends in large part on factors outside our control, and sales of our products may not meet our revenue growth and strategic objectives. Additionally, due to the high concentration of our sales with a small number of OEMs, we cannot guarantee that the demand for the systems offered by these customers will increase or that our sales will increase outside this core customer base, and, accordingly, prior quarterly or annual results may not be an indication of our future revenue growth or financial results.

Because we rely on a small number of customers for a significant portion of our total revenue, the loss of, or a significant reduction in, orders for our products from these customers would negatively affect our total revenue and business.

To date, we have been dependent on sales to a limited number of customers, including Cisco, for most of our total revenue. During the years ended December 31, 2011, 2010, and 2009, our top five customers accounted for 57%, 58%, and 68% of our total revenue, respectively. Also, within those revenues, during the years ended December 31, 2011, 2010, and 2009, Cisco and its contract manufacturers accounted for 23%, 27%, and 35% of our total revenue, respectively. We expect that our future financial performance will continue to depend in large part upon our relationship with Cisco and several other large OEMs.

We cannot assure you that existing or potential customers will not develop their own solutions, purchase competitive products or acquire companies that use alternative methods in their systems. We do not have long-term purchase commitments from any of our OEM customers or their contract manufacturers. Although we entered into master purchase agreements with certain significant customers including Cisco, these agreements do not include any long-term purchase commitments. Generally, our customers place short-term purchase orders with us. Furthermore, such orders are often cancelable prior to shipment. The loss of orders for our products from major customers would have a significant negative impact on our business.

We face additional risks to our business success and financial condition because of our dependence on a small number of customers for sales of our products.

Our dependence on a small number of customers for most of our revenue in the foreseeable future creates additional risks for our business, including the following:

- we may face increased pressure to reduce the average selling prices of our products;
- we may find it difficult to pass through increases in our manufacturing and other direct costs;
- the reputation of our products in the marketplace may be affected adversely if any of our large OEM customers that represent a significant percentage of our sales of products reduce or cease their use of our products; and
- we may face problems in collecting a substantial portion of our accounts receivable if any of these companies faces financial difficulties or dispute payments.

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While we have generated significant cash flows from operations, we reported net losses in 2011, 2010 and 2009 and had a history of net losses prior to 2005. We may incur significant net losses in the future and may not be able to achieve or sustain profitability.

We reported a net loss of \$56.7 million, \$66.4 million and \$47.2 million during 2011, 2010 and 2009, respectively. At December 31, 2011, we had an accumulated deficit of approximately \$246.2 million. To regain profitability, we will have to continue to generate greater total revenue and control costs and expenses. We cannot assure you that we will be able to generate greater total revenue, or limit our costs and expenses, sufficiently to sustain profitability on a quarterly or annual basis. We have used a substantial part of our cash flows from operations, and other sources of capital, to make acquisitions, with respect to which we have incurred substantial charges for amortization of intangibles, changes in contingent earn-out liability, fair value inventory adjustments, increased stock-based compensation expenses and acquisition-related expenses. Due to these items we have reported net losses under U.S. generally accepted accounting principles in 2011, 2010 and 2009 and significantly lower profit than would otherwise have been the case. If we continue to make acquisitions and other transactions that generate substantial expenses related to acquired intangible assets, fair value adjustments to acquired inventory and other acquisition-related items, we may not become profitable in the near term even though we otherwise meet our growth and operating objectives.

Because we sell our products on a purchase order basis and rely on estimated forecasts of our customers' needs, inaccurate forecasts could adversely affect our business.

We sell our products pursuant to individual purchase orders (subject to the terms of a master purchase agreement where applicable), and not pursuant to long-term purchase commitments. Therefore, we rely on estimated demand forecasts, based upon input from our customers, to determine how much product to manufacture. Because our sales are based on purchase orders, our customers may cancel, delay or otherwise modify their purchase commitments with little or no consequence to them and with little or no notice to us. For these reasons, we generally have limited visibility regarding our customers' product needs. We cannot provide assurance as to the quantities or timing required by our customers for our products. We cannot assure you that we will not experience subsequent substantial warranty claims or that warranty claims will not result in cancellation of existing orders or reluctance of customers to place future orders. In addition, the product design cycle for networking OEMs is lengthy, and it may be difficult for us to accurately anticipate when they will commence commercial shipments of products that include our products. Whether in response to changes affecting the industry or a customer's specific business pressures, any cancellation, delay or other modification in our customers' orders could significantly reduce our revenue, cause our operating results to fluctuate from period to period and make it more difficult for us to predict our revenue. In the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to minimize the effect of the lost revenue on our business, and we may purchase too much inventory and spend more capital than expected.

If we overestimate customer demand for our products, we may purchase products from manufacturers that we may not be able to sell. Conversely, if we underestimate customer demand or if sufficient manufacturing capacity were unavailable, we would forego revenue opportunities and could lose market share in the markets served by our products. In addition, our inability to meet customer requirements for our products could lead to delays in product shipments, force customers to identify alternative sources and otherwise adversely affect our ongoing relationships with our customers.

We are dependent on contract manufacturers for a significant portion of our revenue.

Many of our OEM customers, including Cisco, use third party contract manufacturers to manufacture their systems. These contract manufacturers represented 41%, 44%, and 43% of our total revenue for 2011, 2010, and 2009, respectively. Contract manufacturers purchase our products directly from us on behalf of OEMs. Although we work with our OEM customers in the design and development phases of their systems, these OEM customers are gradually

giving contract manufacturers more authority in product purchasing decisions. As a result, we depend on a concentrated group of contract manufacturers for a substantial portion of our revenue. If we cannot compete effectively for the business of these contract manufacturers or if any of the contract manufacturers, which work with our OEM customers, experience financial or other difficulties in their businesses, our revenue and our business could be adversely affected. In particular, if a contract manufacturer becomes subject to bankruptcy proceedings, neither we nor our OEM customer may be able to obtain any of our products held by the contract manufacturer. In addition, we may not be able to recover any payments owed to us by the contract manufacturer for products already delivered to the contract manufacturer when the bankruptcy proceeding is initiated. If we are unable to deliver our products to our OEM customers in a timely manner, our business would be adversely affected.

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The average selling prices of our products may decline, which could reduce our revenue and gross margin.

In our experience, the average selling prices of our products have declined over the course of their commercial lives, principally due to the supply of competing products, pressure from customers to reduce prices and product cycle changes; we expect these trends to continue. Declining average selling prices can adversely affect our future operating results. To maintain acceptable operating results, we will need to develop and introduce new products and product enhancements on a timely basis while retaining cost competitiveness. If we are unable to offset any reductions in our average selling prices by increasing our sales volumes and achieving corresponding production cost reductions, or if we fail to develop and introduce new products and enhancements on a timely basis, our revenue and operating results will suffer.

We rely on third parties for the manufacture of our products, and a significant increase in wafer pricing or our failure to secure sufficient capacity could limit our growth and adversely affect our operating results.

As a fabless semiconductor company, we rely on third-party wafer foundries to manufacture our products. We currently do not have long-term supply contracts with any of the wafer foundries, including TSMC, and United Microelectronics Corporation, or UMC. Neither TSMC nor UMC is obligated to perform services or supply products to us for any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. As a result, there are numerous risks associated with our reliance on these wafer foundries, including the possibilities that TSMC or UMC may give higher priority to their other customers or that our relationships with either wafer foundry may deteriorate. We cannot assure you that TSMC and UMC will continue to provide us with our products at acceptable yields or in sufficient quantities, for reasonable costs and on a timely basis to meet our customers' needs. A failure to ensure the timely fabrication of our products could cause us to lose customers and could have a material adverse effect on our operating results.

If either wafer foundry, and in particular TSMC, ceases to provide us with required production capacity with respect to our products, we cannot assure you that we will be able to obtain manufacturing capacity from other wafer foundries on commercially reasonable terms or that these arrangements, if established, will result in the successful manufacturing of our products. These arrangements might require us to share our technology and might be subject to unilateral termination by the wafer foundries. Even if such capacity is available from another manufacturer, we would need to convert the production of our integrated circuits to a new fabrication process and qualify the other manufacturer. Qualification of a new fabrication process or foundry could take nine months or longer. Furthermore, we may not be able to identify or qualify manufacturing sources that would be able to produce wafers with acceptable manufacturing yields.

Additionally, some of the network search engine products we acquired from IDT are manufactured for us by IDT at their wafer fabrication facilities. While IDT is contractually obligated to manufacture for us certain quantities of these products, we cannot assure you that IDT will continue to honor these commitments, that IDT's fabrication facility will remain in business or that IDT will be able to always meet our production demands which may adversely impact our operating results.

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We also rely on third parties for other products and services, including the assembly, testing and packing of our products, and engineering services, and any failure by third parties to provide the tools and services we require could limit our growth and adversely affect our future operating results.

Our products are assembled and tested by third-party vendors that require the use of high performance assembly and test equipment. In addition, in connection with the design of our products, we use software tools, which we obtain from third party software vendors, for simulation, layout and other design purposes. Our reliance on independent assembly, testing, software and other vendors involves a number of risks, including reduced control over delivery schedules, quality assurance and costs. We currently do not have long-term supply contracts with any of these third party vendors. As a result, most of these third party vendors are not obligated to provide products or perform services to us for any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. The inability of these third party vendors to deliver high performance products or services of acceptable quality and in a timely manner, could lengthen our design cycle, result in the loss of our customers and reduce our revenue.

We also rely on third party component suppliers to provide custom designed integrated circuit packages for our products. In some instances, these package designs are provided by a single supplier. Our reliance on these suppliers involves a number of risks, including reduced control over delivery schedules, quality assurance and costs. We currently do not have long-term supply contracts with any of these package vendors. As a result, most of these third party vendors are not obligated to provide products or perform services to us for any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. The inability of these third party vendors to deliver packages of acceptable quality and in a timely manner, particularly the sole source vendors, could adversely affect our delivery commitments and adversely affect our operating results or cause them to fluctuate more than anticipated. Additionally, these packages may require specialized or high-performance component parts that may not be available in quantities or in time frames that meet our requirements or the anticipated requirement of our customers.

In connection with the design of our products, we have and may license third party intellectual property, and use third party engineering services. Our reliance on these third party intellectual property and engineering services providers involves a number of risks, including reduced control over and quality of the intellectual property and service deliverables, quality and costs. The inability of these third party providers to deliver high performance products or services of acceptable quality and in a timely manner, could lengthen our design cycle, result in the loss of our customers and reduce our revenue.

Our costs may increase substantially if the wafer foundries, assembly and test vendors that supply and test our products do not achieve satisfactory product yields, reliability or quality.

The wafer fabrication process is an extremely complicated process where the slightest changes in the design, specifications or materials can result in material decreases in manufacturing yields or even the suspension of production. From time to time, we and our wafer foundries have experienced, and are likely to continue to experience manufacturing defects and reduced manufacturing yields related to errors or problems in our wafer foundries' manufacturing processes or the interrelationship of their processes with our designs. In some cases, our wafer foundries may not be able to detect these defects early in the fabrication process or determine the cause of such defects in a timely manner, which may affect the quality or reliability of our products. We may incur substantial research and development expense for prototype or development stage products as we qualify the products for production.

Generally, in pricing our products, we assume that manufacturing, assembly and test yields will continue to increase, even as the complexity of our products increases. Once our products are initially qualified with our wafer foundries, minimum acceptable yields are established. We are responsible for the costs of the wafers if the actual yield is above

the minimum. If actual yields are below the minimum, we are not required to purchase the wafers. The minimum acceptable yields for our new products are generally lower at first and increase as we achieve full production. Whether as a result of a design defect or manufacturing, assembly or test error, unacceptably low product yields or other product manufacturing, assembly or test problems could substantially increase the overall production time and costs and adversely impact our operating results on sales of our products. Product yield losses will increase our costs and reduce our gross margin. In addition to significantly harming our operating results and cash flow, poor yields may delay shipment of our products and harm our relationships with existing and potential customers.

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To be successful we must continue to develop and have manufactured for us, innovative products to meet the evolving requirements of networking OEMs.

To remain competitive, we devote substantial resources to research and development, both to improve our existing technology and to develop new technology. We also seek to improve the manufacturing processes for our products, including the use of smaller process geometries, which we believe is important for our products to serve our OEM customers' requirements for enhanced processing. Our failure to migrate our products to processes at smaller process geometries could substantially reduce the future competitiveness of our products. In addition, from time to time, we may have to redesign some of our products or modify the manufacturing process for them. We cannot give you any assurance that we will be able to improve our existing technology or develop and integrate new technology into our products. Even if we design better products, we may encounter problems during the manufacturing or assembly process, including reduced manufacturing yields, production delays and increased expenses, all of which could adversely affect our business and results of operations.

In addition, given the highly complex nature of these products, even the slightest change or adjustment to our integrated circuit designs could require substantial resources to implement them. We may not be able to make these changes or adjustments to our products or correct any errors or defects arising from their implementation. Failure to make these changes or adjustments or correct these errors or defects during the product development stages, or any resulting delays, could severely harm our existing and potential customer relationships and could likely increase our development costs, adversely affecting our operating results. If these changes, adjustments, errors or defects are not identified or requested until after commercial production has begun or after products have been delivered to customers, we may be required to re-test existing inventory, replace products already shipped or re-design the products, all of which would likely result in significant time delays and additional costs and expenses.

We have sustained substantial losses from low production yields in the past and may incur such losses in the future.

Designing and manufacturing integrated circuits is a difficult, complex and costly process. Once research and development has been completed and the foundry begins to produce commercial volumes of the new integrated circuit, products still may contain errors or defects that could adversely affect product quality and reliability. We have experienced low yields and have incurred substantial research and development expenses in the design and initial production phases of all of our products. We cannot assure you that we will not experience low yields, substantial research and development expenses, product quality, reliability or design problems, or other material problems with our products that we have shipped or may ship in the future.

If we fail to retain key personnel and hire additional personnel, our business and growth could be negatively affected.

Our business has been dependent to a significant degree upon the services of a small number of executive officers and technical employees. We generally do not have non-competition agreements or term employment agreements with any of our executive officers, whom we generally employ at will. We do not maintain key-man life insurance on the lives of any of our key personnel. The loss of any of these individuals could negatively impact our technology development efforts and our ability to service our existing customers and obtain new customers.

Our future growth will also depend, in part, upon our ability to recruit and retain other qualified managers, engineers and sales and marketing personnel. There is intense competition for these individuals in our industry, and we cannot assure you that we will be successful in recruiting and retaining these individuals. If we are unable to recruit and retain these individuals, our technology development and sales and marketing efforts could be negatively impacted.

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If we fail to maintain competitive equity compensation packages for our employees, or if our stock price declines materially for a protracted period of time, we might have difficulty retaining our employees and our business may be harmed.

In today's competitive technology industry, employment decisions of highly skilled personnel are influenced by equity compensation packages, which offer incentives above traditional compensation only where there is a consistent, long-term upward trend over time of a company's stock price. If our stock price declines due to market conditions, investors' perceptions of the technology industry or managerial or performance problems we have, our equity compensation incentives, especially stock awards may lose value to key employees, and we may lose these employees or be forced to grant additional equity compensation incentives to retain them. This in turn could result in:

- immediate and substantial dilution to investors resulting from the grant of additional equity awards necessary to retain employees; and
- potential compensation charges against the company, which could negatively impact our operating results.

Additionally, if we fail to provide an adequate amount of equity consideration to new and existing employees we may be unable to compete for new talent and retain our existing talent. Also, we have a limited number of shares available for grant under our Amended and Restated 2004 Equity Incentive Plan and it may not be adequate to enable us to continue to competitively compensate our employees in the future, which may prevent us from retaining our employees and could significantly impact our operating results.

A failure to successfully address the potential difficulties associated with international business could reduce our growth, increase our operating costs and negatively impact our business.

We conduct a significant amount of our business with companies that operate primarily outside of the United States, and intend to increase sales to companies operating outside of the United States. For example, our customers based outside the United States accounted for 80%, 82%, and 75% of our total revenue during 2011, 2010, and 2009, respectively. Not only are many of our customers located abroad, but our wafer foundries are predominantly located in Taiwan, and we outsource the assembly and testing of our products to companies based principally in Taiwan. We face a variety of challenges in doing business internationally, including:

- foreign currency exchange fluctuations;
- compliance with local laws and regulations that we may not be familiar with;
- unanticipated changes in local regulations;
- potentially adverse tax consequences, such as withholding taxes;
- timing and availability of export and import licenses;
- political and economic instability;
- reduced or limited protection of our intellectual property;
- additional resources and management time required to manage relationships with international distributors and other international sales channels that may be unfamiliar with our operating and disclosure practices and procedures and the requirements of our system of internal control;

- protectionist laws and business practices that favor local competition; and
- additional financial risks, such as potentially longer and more difficult collection periods.

Because we anticipate that we will continue to rely heavily on foreign based customers for our future growth, the occurrence of any of the circumstances identified above could significantly increase our operating costs, delay the timing of our revenue and harm our business and financial condition.

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We must design our products to meet the needs of our OEM customers and convince them to use our products, or our revenue will be adversely affected.

In general, our OEM customers design our products into their equipment during the early stages of their development after an in-depth technical evaluation of both our and our competitors' products. These design wins are critical to the success of our business. In competing for design wins, if a competitor's product is already designed into the product offering of a potential customer, it becomes very difficult for us to sell our products to that customer. Changing suppliers involves additional cost, time, effort and risk for the customer. In addition, our products must comply with the continually evolving specifications of our OEMs. Our ability to compete in the future will depend, in large part, on our ability to comply with these specifications. As a result, we expect to invest significant time and effort and to incur significant expense to design our products to ensure compliance with relevant specifications. Even if an OEM designs our products into its systems, we cannot assure you that its systems will be commercially successful or that we will receive significant revenue from sales of our products for those systems.

Factors that negatively affect the businesses of our targeted OEMs that use or could use our products could negatively impact our total revenue.

The timing and amount of our revenue depend on the ability of our targeted OEMs who use our products to market, produce and ship systems incorporating our technology. Factors that negatively affect a significant customer or group of customers could negatively affect our results of operations and financial condition. Many issues beyond our control influence the success of our targeted OEMs that use our products, including, for example, the highly competitive environment in which they operate, the strength of the markets for their products, their engineering capabilities, their ability or inability to obtain other components from other suppliers, the compatibility of any of their other components with our products, the impact of a worldwide recession on their capital spending and sales of their equipment, and their financial and other resources. Likewise, we have no control over their product development or pricing strategies, which directly affect sales of their products and, in turn, our revenue. A decline in sales of our OEM customers' systems that use our products would reduce our revenue. In addition, seasonal and other fluctuations in demand for their products could cause our operating results to fluctuate, which could cause our stock price to fall.

We have a lengthy sales cycle, which may result in significant expenses that do not generate significant revenue or delayed revenue generation from our selling efforts and limits our ability to forecast our revenue.

We expect that our product sales cycle, which results in our products being designed into our customers' products, could take over 24 months. It can take an additional nine months to reach volume production of these products. A number of factors can contribute to the length of the sales cycle, including technical evaluations of our products by our OEMs, the design process required to integrate our products into our OEM customers' products and the timing of our OEMs' new product announcements. In anticipation of product orders, we may incur substantial costs before the sales cycle is complete and before we receive any customer payments. As a result, in the event that a sale is not completed or is cancelled or delayed, we may have incurred substantial expenses, making it more difficult for us to become profitable or otherwise negatively impacting our financial results. Furthermore, because of our lengthy sales cycle, our receipt of revenue from our selling efforts may be substantially delayed, our ability to forecast our future revenue may be more limited and our revenue may fluctuate significantly from quarter to quarter.

Our operating results could be adversely affected if we have to satisfy product warranty or liability claims.

If our products are defective or malfunction, we could be subject to product warranty or product liability claims that could have significant related warranty charges or warranty reserves in our financial statements. Further, we may spend significant resources investigating potential product design, quality and reliability claims, which could result in additional charges in our financial statements until such claims are resolved. We cannot guarantee that warranty

reserves will either increase or decrease in future periods. Further, in connection with master purchase agreements that we entered into with certain large OEM customers, we agreed to provide varying product warranty periods and to indemnify customers for costs incurred in rectifying epidemic failures. If we are required to make payments under this indemnity, our operating results may be adversely affected. Moreover, these claims in the future, regardless of their outcome, could adversely affect our business.

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Our revenue and operating results may fluctuate significantly from period to period, on a quarterly or annual basis, causing volatility in our stock price.

Our total revenue and operating results have fluctuated from quarter-to-quarter in the past and are expected to continue to do so in the future. As a result, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance. Fluctuations in our total revenue and operating results could negatively affect the trading price of our stock. In addition, our total revenue and results of operations may, in the future, be below the expectations set by us or of analysts and investors, which could cause our stock price to decline. Factors that are likely to cause our revenue and operating results to fluctuate include, for example, the periodic costs associated with the generation of mask sets for new products and product improvements and the risk factors discussed throughout this section. Additional factors that could cause our revenue and operating results to fluctuate from period to period include:

- foreign currency exchange fluctuations;
- the timing and volume of orders received from our customers;
- market demand for, and changes in the average selling prices of, our products;
- the rate of qualification and adoption of our products by networking OEMs;
- fluctuating demand for, and lengthy life cycles of, the products and systems that incorporate our products;
- the market success of the OEM systems that incorporate our products;
- the ability of our wafer foundries to supply us with production capacity and finished products to sell to our customers;
- changes in the level of our costs and operating expenses;
- our ability to receive our manufactured products from our wafer foundries and ship them within a particular reporting period;
- deferrals or cancellations of customer orders in anticipation of the development and commercialization of new technologies or for other reasons;
- changes in our product lines and revenue mix;
- the timing of the introduction by others of competing, replacement or substitute products technologies;
- our ability or the ability of our customers that use our products to procure required components or fluctuations in the cost of such components;
- cyclical fluctuations in semiconductor or networking markets; and
- general economic conditions that may affect end-user demand for products that use our products.

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The cyclical nature of the semiconductor industry and the networking markets could adversely affect our operating results and our business.

We expect our business to be subject to the cyclicity of the semiconductor industry, especially the market for communications integrated circuits. Historically, there have been significant downturns in this industry segment, characterized by reduced demand for integrated circuits and accelerated erosion of average selling prices. At times, these downturns have lasted for prolonged periods of time. Furthermore, from time to time, the semiconductor industry also has experienced periods of increased demand and production constraints, in which event we may not be able to have our products produced in sufficient quantities, if at all, to satisfy our customers' needs. It is likely that the communications integrated circuit business will experience similar downturns in the future and that, during such times, our business could be affected adversely. It is also likely that the semiconductor industry will experience periods of strong demand. We may have difficulty in obtaining enough products to sell to our customers or may face substantial increases in the wafer prices charged by our foundries.

In addition, the networking industry from time to time has experienced and may experience a pronounced downturn. To respond to a downturn, many networking service providers may be required to slow their research and development activities, cancel or delay new product developments, reduce their workforces and inventories and take a cautious approach to acquiring new equipment and technologies from networking OEMs, which would have a significant negative impact on our business. In the future, a downturn in the networking industry may cause our operating results to fluctuate significantly from year to year, which also may tend to increase the volatility of the price of our common stock.

We may not be able to protect and enforce our intellectual property rights, which could impair our ability to compete and reduce the value of our technology.

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

We cannot assure you that any patents will issue from any of our pending applications. Any rights granted under any of our existing or future patents may not provide meaningful protection or any commercial advantage to us. For example, such patents could be challenged or circumvented by our competitors or declared invalid or unenforceable in judicial or administrative proceedings. The failure of any patents to adequately protect our technology would make it easier for our competitors to offer similar products. We do not have foreign patents or pending applications corresponding to many of our U.S. patents and patent applications, including in some foreign countries where our products are sold or may be sold in the future. Even if foreign patents are granted, effective enforcement in foreign countries may not be available.

With respect to our other proprietary rights, it may be possible for third parties to copy or otherwise obtain and use our proprietary technology or marks without authorization or to develop similar technology independently. Monitoring unauthorized use of our proprietary technology or marks is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriation or unauthorized use of our technology or marks. In addition, effective patent, copyright, trademark and trade secret protection may not be available or may be limited in certain foreign countries. Many companies based in the U.S. have encountered substantial infringement problems in foreign countries, including countries in which we sell products. Our failure to effectively protect our intellectual property could reduce the value of our technology and could harm our business, financial condition and operating results.

Furthermore, we have in the past and may in the future initiate claims or litigation against third parties to determine the validity and scope of proprietary rights of others. In addition, we may in the future initiate litigation to enforce our intellectual property rights or the rights of our customers or to protect our trade secrets. Litigation by us could result in significant expense and divert the efforts of our technical and management personnel and could materially and adversely affect our business, whether or not such litigation results in a determination favorable to us.

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Any claim that our products or our proprietary technology infringe third party intellectual property rights could increase our costs of operation, and distract management, and could result in expensive settlement costs.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights or positions, which have resulted in often protracted and expensive litigation. From time to time, we are involved in litigation relating to intellectual property rights. In addition, we have received notices from time to time that claim we have infringed upon or misappropriated intellectual property rights owned by others. We typically respond when appropriate and as advised by legal counsel. We cannot assure you that parties will not pursue litigation with respect to those allegations. We may, in the future, receive similar notices, any of which could lead to litigation against us. For example, parties may initiate litigation based on allegations that we have infringed their intellectual property rights or misappropriated or misused their trade secrets, or may seek to invalidate or otherwise render unenforceable one or more of our patents. Litigation against us can result in significant expense and divert the efforts of our management, technical, marketing and other personnel, whether or not the litigation results in a determination adverse to us. We cannot assure you that we will be able to prevail or settle any such claims or that we will be able to do so at a reasonable cost. In the event of an adverse result in any such litigation, we could be required to pay substantial damages for past infringement and royalties for any future use of the technology. In addition, we may be required to cease the sale of certain products, recall certain products from the market, redesign certain products offered for sale or under development or cease the use of certain marks or names. We cannot assure you that we will be able to successfully redesign our products or do so at a reasonable cost. Additionally, we have in the past sought and may in the future seek to obtain a license to a third party's intellectual rights and have granted and may in the future grant a license to certain of our intellectual property rights to a third party in connection with a cross-license agreement or a settlement of claims or actions asserted against us. However, we cannot assure you that we would be able to obtain a license on commercially reasonable terms, or at all.

Our customers could also become the target of litigation relating to the patent and other intellectual property rights of others. This could trigger technical support and indemnification obligations in some of our license or customer agreements. These obligations could result in substantial expenses, including the payment by us of costs and damages related to claims of patent infringement. In addition to the time and expense required for us to provide support or indemnification to our customers, any such litigation could disrupt the businesses of our customers, which in turn could hurt our relations with our customers and cause the sale of our products to decrease. We cannot assure you that claims for indemnification will not be made or that if made, such claims would not have a material adverse effect on our business, operating results or financial condition. We do not have any insurance coverage for intellectual property infringement claims for which we may be obligated to provide indemnification. If we are obligated to pay damages in excess of, or otherwise outside of, our insurance coverage, or if we have to settle these claims, our operating results could be adversely affected.

If we are unable to compete effectively, our revenue and market share may be reduced.

Our business is extremely competitive, especially during the design-in phase of our customers' design cycles. We compete with large semiconductor manufacturers, many of which have more established reputations, more diverse customer bases and greater financial and other resources than we do. In addition, our OEM customers may design their own integrated circuits to address their system needs. As we develop new applications for our products and expand into new markets, we expect to face even greater competition. Our present and future competitors may be able to better anticipate customer and industry demands and to respond more quickly and efficiently to those demands, such as with product offerings, financial discounts or other incentives. Furthermore, our OEM customers may be able to develop or acquire integrated circuits that satisfy their needs faster or most cost effectively than we can. We cannot assure you that we will be able to compete effectively against these and our other competitors. If we do not compete effectively, our revenue and market share may decline.

Our success may depend on our ability to comply with new or evolving industry standards applicable to our products or our business.

Our ability to compete in the future may depend on our ability to ensure that our products comply with evolving industry standards affecting our customers' equipment and other markets in which we compete. In addition, from time to time, new industry standards may emerge which could render our products incompatible with the products of our customers or suppliers. In order to ensure compliance with the relevant standards, we may be required to devote significant time, capital and other resources to modify or redesign our existing products or to develop new products. We cannot assure you that we will be able to develop products which comply with prevailing standards. If we are unable to develop these products in a timely manner, we may miss significant business opportunities, and our revenue and operating results could suffer.

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If an earthquake or other natural disaster disrupts the operations of our third party wafer foundries or other vendors located in high risk regions, we could experience significant delays in the production or shipment of our products.

TSMC and UMC, which manufacture our products, along with most of our vendors who handle the assembly and testing of our products, are located in Asia. The risk of an earthquake in the Pacific Rim region is significant due to the proximity of major earthquake fault lines. In September 1999, a major earthquake in Taiwan affected the facilities of several of these third party vendors, as well as other providers of these services. As a result of this earthquake, these vendors suffered power outages and disruptions that impaired their production capacity. In March 2002 and September 2003, additional earthquakes occurred in Taiwan. The occurrence of additional earthquakes or other natural disasters could result in the disruption of the wafer foundry or assembly and test capacity of the third parties that supply these services to us. We may not be able to obtain alternate capacity on favorable terms, if at all.

Any future acquisitions we make could disrupt our business, and harm our financial condition and dilute our stockholders.

In the future, we may consider additional opportunities to acquire other businesses or technologies that would complement our current offerings, expand the breadth of our markets or enhance our technical capabilities. Acquisitions present a significant number of potential challenges that could, if not met, disrupt our business operations, increase our operating costs, reduce the value to us of the acquired company or business, including:

- integration of the acquired employees, operations, technologies and products with our existing business and products;
- focusing management's time and attention on our existing core business;
- retention of business relationships with suppliers and customers of the acquired company;
- entering markets in which we may lack prior experience;
- retention of key employees of the acquired company or business;
- amortization of intangible assets, write-offs, fair market value adjustments for acquired inventory, changes in contingent earn-out liability, stock-based compensation and other charges relating to the acquired business and our acquisition costs; and
- dilution to our existing stockholders from the issuance of additional shares of common stock or reduction of earnings per outstanding share in connection with an acquisition that fails to increase the value of our company.

We cannot provide assurances, however, that future acquisitions that we might make will achieve our business objectives or increase our value or the price of our common stock.

We expect to rely on third-party technologies for the development of our products, and our inability to use these technologies in the future could harm our ability to compete in the markets for these products.

We rely on third parties for technologies that are integrated into a number of our products, such as wafer fabrication and assembly and test technologies used by its contract manufacturers, as well as licensed MIPS architecture technologies. If we are unable to continue to use or license these technologies on reasonable terms, or if these technologies fail to operate properly following the acquisition, we may not be able to secure alternatives in a timely

manner, and our ability to remain competitive in the markets served by these products would be harmed. In addition, the MIPS license requires that certain improvements be made available to the community of all of MIPS' licensees, which could conceivably reduce the proprietary advantage that we will have with this architecture. If we are unable to license technology from third parties on commercially reasonable terms in order to continue to develop current products or to develop future products for the markets served by the RMI products, we may not be able to develop these products in a timely manner or at all.

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We are exposed to potential impairment charges on certain assets.

Over the past several years, we have made several acquisitions. As a result of these acquisitions, we had approximately \$166.8 million of goodwill, \$193.0 million of intangible assets and other long-lived assets on our balance sheet as of December 31, 2011. Under GAAP, we are required to review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We perform an assessment of long-lived assets annually and on an interim basis whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the businesses acquired fail to meet the expectations we established at the time of the acquisition, or if our market capitalization adjusted for control premiums and other factors declines to below our carrying value, we could incur significant goodwill or intangible impairment charges, which could negatively impact our results of operations. In addition, from time to time, we have made investments in other companies which are privately held. If such companies are unable to execute their business plans and succeed in their respective markets, we may not benefit from the investments, and may incur a loss on them. We evaluate our investment portfolio on a regular basis to determine if impairments have occurred. Impairment charges could have a material impact on our results of operations in any period.

We may be required to record increases in our income tax provision which could negatively affect our results of operations and financial position.

Our income tax provision reflects judgment and estimation regarding the allocation of profits between taxing jurisdictions and the application of complex tax laws throughout the jurisdictions where we operate. These calculations of income taxes are based on our legal and factual interpretations of applicable tax laws in the jurisdictions in which we file returns and involve judgment and taking positions in matters of uncertainty. Although we believe our tax estimates are reasonable, the ultimate tax outcome which may arise from an examination of our income tax returns by the Internal Revenue Services in the U.S. or other tax authorities, may materially differ from the tax amounts recorded in our consolidated financial statements and may cause a higher effective tax rate that could materially affect our income tax provision, results of operations or cash flows in the period or periods for which such determination is made. We believe that we have provided sufficient tax provisions for all open tax years and the ultimate outcome from any tax audits will not have a material adverse impact on our financial position or results of operations in future periods. Potential changes to tax laws include, but are not limited to changes in corporate tax rates, curbing the deferral of U.S. taxation of certain foreign earnings, and limiting the ability to use research and development and foreign tax credits. However, we cannot predict with certainty how these matters which could change as a result of new legislature, evolution of regulation and court rulings, or an unexpected audit or litigation outcome will ultimately be resolved and whether we will be required to make additional tax payments.

Furthermore, our provision for income tax could increase as we expand our international operations, adopt new products, implement changes to our operating structure or undertake intercompany transactions in light of acquisitions, changing tax laws, expiring rulings, and our current and anticipated business and operational requirements.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in foreign markets.

Because we incorporate encryption technology into our communication processors, some of these products are subject to United States export controls and may be exported outside the United States only with the required level of export license or through an export license exception. In addition, many countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to introduce products or could limit our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with

international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or an inability to export or sell our products to, existing or prospective customers with international operations and harm our business.

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RISKS RELATING TO OUR COMMON STOCK

Our stock price could drop, and there could be significantly less trading activity in our stock, if securities or industry analysts downgrade our stock or do not publish research or reports about our business.

Our stock price and the trading market for our stock are likely to be affected significantly by the research and reports concerning our company and our business which are published by industry and securities analysts. We do not have any influence or control over these analysts, their reports or their recommendations. Our stock price and the trading market for our stock could be negatively affected if any analyst downgrades our stock, publishes a report which is critical of our business, or discontinues coverage of us.

Our common stock has experienced substantial price volatility.

Our common stock has experienced substantial price volatility. Such volatility may occur in the future, particularly because of quarter-to-quarter variations in our actual or anticipated financial results, or the reported financial results of other semiconductor companies or our customers. Stock price volatility may also result from product announcements by us or our competitors, or from changes in perceptions about the various types of products we manufacture and sell. In addition, our stock price may fluctuate due to price and volume fluctuations in the stock market, especially in the technology sector.

Provisions of our certificate of incorporation and bylaws, Delaware law and customer agreements might delay or prevent a change of control transaction and depress the market price of our stock.

Various provisions of our certificate of incorporation and bylaws might have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of us. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. Certain of these provisions eliminate cumulative voting in the election of directors, limit the right of stockholders to call special meetings and establish specific procedures for director nominations by stockholders and the submission of other proposals for consideration at stockholder meetings.

We are also subject to provisions of Delaware law which could delay or make more difficult a merger, tender offer or proxy contest involving us. In particular, Section 203 of the Delaware General Corporation Law prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years unless specific conditions are met. Any of these provisions could have the effect of delaying, deferring or preventing a change in control, including, without limitation, discouraging a proxy contest or making more difficult the acquisition of a substantial block of our common stock.

Our board of directors might issue up to 50,000,000 shares of preferred stock without stockholder approval on such terms as the board might determine. The rights of the holders of common stock will be subject to, and might be adversely affected by, the rights of the holders of any preferred stock that might be issued in the future.

Under our master purchase agreements with large OEMs, certain customers may exercise rights to purchase our products directly from our manufacturers under certain circumstances. This provision may discourage or complicate attempts by some third parties to acquire us.

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Our stockholder rights plan could prevent stockholders from receiving a premium over the market price for their shares from a potential acquirer.

We adopted a stockholder rights plan that generally entitles our stockholders to rights to acquire additional shares of our common stock when a third party acquires 15.0% of our common stock or commences or announces its intent to commence a tender offer for at least 15.0% of our common stock, other than for certain stockholders that were stockholders prior to our initial public offering as to whom this threshold is 20.0%. This plan could delay, deter or prevent an investor from acquiring us in a transaction that could otherwise result in stockholders receiving a premium over the market price for their shares of common stock.

We may need to obtain financing in order to fund our growth strategy.

We believe that we have or will have access to capital sufficient to satisfy our working capital requirements for at least the next 12 months. However, it may become necessary for us to raise additional funds to support our growth. We cannot assure you that we will be able to obtain financing when needed or that, if available to us, the terms will be acceptable to us. If we issue equity securities in any financing, the new securities may have rights and preferences senior to our shares of common stock, and the ownership interest in us of our current stockholders will be proportionately reduced. If we issued debt securities, they will rank senior to all equity securities. If we are unable to raise additional capital, we may not be able to implement our growth strategy, and our business could be harmed significantly. Our future capital requirements will depend on many factors, including the amount of revenue we generate, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products, the costs to ensure access to adequate manufacturing capacity, and the continuing market acceptance of our products, and any future business acquisitions that we might undertake. However, if we do not meet our plan, we could be required, or might elect, to seek additional funding through public or private equity or debt financing and additional funds may not be available on terms acceptable to us or at all. We also might decide to raise additional capital at such times and upon such terms as management considers favorable and in the interests of the Company. We may sell up to approximately an additional \$120 million of our debt and/or equity securities (before reductions for expenses, underwriting discounts and commissions) under our existing shelf registration statement on Form S-3 which may result in an increase in the number of shares and decline in earnings per share. We may also sell securities pursuant to one or more automatic shelf registration statements that become effective automatically upon filing with the Securities and Exchange Commission, provided we continue to meet the eligibility requirements for this form. We may sell these securities under these registration statements from time-to-time without prior announcement.

RISKS RELATING TO THE MERGER

If the Merger is not completed our stock price may decline, we will have incurred significant costs, we may be liable for termination and other fees and our business may be harmed.

On September 12, 2011, we announced that we had signed a merger agreement with Broadcom and a wholly-owned subsidiary of Broadcom pursuant to which, subject to the satisfaction or waiver of certain conditions, the subsidiary will merge with and into us and we will become a wholly-owned subsidiary of Broadcom. If the Merger is not completed, we may be subject to a number of substantial risks, including the following:

- the price of our common stock may decline, including to the extent the current price of our common stock reflects an assumption that the Merger will be completed;
-

we may be required to pay Broadcom a termination fee of \$127 million if the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement;

- our costs and expenses related to the transaction, including legal fees and a portion of the fees of our financial advisor, must be paid even if the Merger is not completed; and
- a failed transaction may result in negative publicity and a negative impression of us in the investment community and may harm our relationships with customers, suppliers, distributors, licensors and employees.

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The Merger may not be completed.

The closing of the Merger is subject to the satisfaction or waiver of certain conditions, including the following:

- the receipt of the affirmative approval or clearance of governmental authorities required under the competition laws of China;
- no change, event, violation, inaccuracy, circumstance or effect (any such item, an “Effect”), either individually or in the aggregate with other Effects, shall have occurred and be continuing after the date of the Merger Agreement that has had or would reasonably be expected to have a “Material Adverse Effect” as defined in the Merger Agreement;
- all of our representations and warranties being true and correct (disregarding all materiality or Material Adverse Effect qualifications), in each case as of the date of the Merger Agreement and as of the closing date of the Merger (except that the accuracy of representations and warranties that by their terms address matters only as of a specified time will be determined as of that time) except where the failure of such representations and warranties to be true and correct, individually or in the aggregate, has not had nor would reasonably be expected to have a Material Adverse Effect; provided that the representations and warranties with respect to our capital structure must be true and correct as of the date of the Merger Agreement and as of the closing date of the Merger other than such inaccuracies that would not increase the specified consideration paid by Broadcom in connection with the Merger by more than a de minimis amount;
- we shall not have materially breached or failed to perform or comply in any material respects with any of our agreements, obligations or covenants under the Merger Agreement;
- the absence of any temporary restraining order, preliminary or permanent injunction, or other judgment issued by a court of competent jurisdiction or other law or legal requirement that has the effect of making the Merger illegal or otherwise prohibiting or preventing the consummation of the Merger or the other transactions contemplated by the Merger Agreement; and
- the absence of any pending or threatened suit, action or proceeding asserted by a governmental entity with respect to the transactions contemplated by the Merger Agreement, including actions that prohibit the consummation of the Merger or limit Broadcom’s ownership or operation of us following the consummation of the Merger.

If the Merger Agreement is terminated, the Merger will not be completed. The Merger Agreement may be terminated under certain circumstances specified in the Merger Agreement, including the following:

- by mutual written consent authorized by the boards of directors of Broadcom and us;
- by either Broadcom or us if:
 - the Merger is not consummated by April 30, 2012 (which we refer to as the “End Date”), but if on April 30, 2012, the antitrust closing condition is not satisfied but all other conditions to closing are satisfied or, with respect to closing conditions that by their terms are to be satisfied at the Merger closing, are capable of being satisfied, then we or Broadcom may extend the End Date until August 31, 2012; this right to terminate is not, however, available to any party whose action or failure to act has been a principal cause of or resulted in the failure of the Merger to occur and is a breach of the Merger Agreement; or

- a governmental entity (including a court) has issued an order, decree or ruling or taken any other action (or failed to take an action) that has become final and non-appealable and has the effect of permanently restraining, enjoining or otherwise prohibiting the consummation of the Merger;
- by Broadcom if
- an Effect that, individually or in the aggregate, has occurred since the date of the Merger Agreement and is continuing that has, or would reasonably be expected to have, a Material Adverse Effect; provided that if the Effect is capable of remediation through the exercise of our reasonable best efforts prior to the End Date, then Broadcom cannot terminate under this provision prior to 30 days following the occurrence of such effect; or

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Our business and prospects may have been, and may continue to be, adversely impacted by the announcement and pendency of the Merger.

Although we believe that our business has continued to perform well since the announcement of the Merger, the announcement of the Merger, and the uncertainty regarding our business pending the completion of the Merger, could have a number of negative effects on our business, including the following:

- the attention of our management may be diverted from day-to-day business operations, possibly leading to a loss of revenues and market position;
- our current and potential customers may delay or cancel purchasing decisions in response to the Merger, resulting in a decline in our revenues;
- our business partners, including suppliers, distributors and licensors, may adversely change or terminate their relationships with us in response to the Merger; and
- our employees may experience uncertainty about their future role with us, harming our ability to attract and retain key management, sales and technical personnel.

In addition, we are subject to restrictions on the conduct of our business prior to the consummation of the Merger that could delay or prevent us from undertaking business opportunities that arise during the term of the Merger Agreement.

The “no solicitation” restrictions and the termination fee provisions in the Merger Agreement may discourage other companies from trying to acquire us.

The Merger Agreement contains restrictions on our ability to solicit or engage in discussions or negotiations with third parties regarding specified transactions involving our company or our subsidiaries. Under limited circumstances, however, our board of directors may respond to an unsolicited written bona fide takeover proposal or terminate the Merger Agreement and enter into an acquisition agreement with respect to a Superior Offer. We are generally required to pay Broadcom a termination fee of \$127 million if we terminate the Merger Agreement and enter into an acquisition agreement with respect to a Superior Offer. These provisions could discourage other parties from trying to acquire our company even though the other parties might be willing to offer greater value to our stockholders than Broadcom has offered in the Merger Agreement.

We cannot assure you that the Merger will provide greater value to you than you would have if NetLogic continued as an independent public company.

Upon completion of the Merger, our stockholders would receive \$50.00 in cash, without interest and subject to any applicable withholding taxes, for each outstanding share of our common stock owned by them. We believe, and have been advised by Qatalyst Partners LLP, our financial advisor, that this consideration is fair to our stockholders from a financial point of view. However, we are unable to predict with certainty our future prospects or the market price of our common stock and cannot say definitively whether the price of our common stock ultimately would be higher or lower than \$50.00 per share in the absence of the Merger.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

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ITEM 2. PROPERTIES.

The following table sets forth the location, and approximate square footage of each of the principal properties used by us as of December 31, 2011. All properties are contracted under operating leases which expire at various times through 2018.

Location	Approximate Square Footage
Santa Clara, California, USA	133,897
Austin, Texas, USA	14,610
Bangalore, India	27,160

In addition, we lease office spaces located at Beijing, Shanghai, Nanjing, and Shenzhen in China, Toulouse in France, Mumbai in India, Tokyo in Japan, Seoul in Korea, and Taipei and Hsinchu in Taiwan. We believe that these facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed to accommodate foreseeable expansion of our operations.

ITEM 3. LEGAL PROCEEDINGS.

On September 16, 2011, a putative class action lawsuit, *New Jersey Carpenters Pension Fund v. Broyles, et al.*, Case No. 111CV209381, challenging the Merger was filed in California Superior Court, County of Santa Clara (referred to as the “California Action”) against Broadcom, Merger Sub and the members of our board of directors. On September 20, 2011, another putative class action lawsuit, *Vincent Anthony Danielo v. NetLogic Microsystems, Inc., et al.*, CA No. 6881, challenging the Merger was filed in the Court of Chancery of the State of Delaware (referred to as the “Delaware Action”) against NetLogic, Broadcom, Merger Sub and the members of our board of directors. The complaints in both lawsuits allege that our directors violated their fiduciary duties to our stockholders by, among other things, failing to ensure a fair sale process and a fair price in connection with the Merger, and acting to further their personal interests and the interests of Broadcom at the expense of NetLogic’s stockholders. Each lawsuit also alleges that Broadcom and Merger Sub aided and abetted our directors in breaching their fiduciary duties. On October 7, 2011, the plaintiff in the California Action filed an amended complaint adding allegations that the preliminary proxy statement filed on October 5, 2011 contained inadequate and misleading disclosures under Delaware law by failing to provide additional and more detailed disclosures regarding the events leading up to the merger, the analysis and opinion of Qatalyst, and the Company Projections. On October 19, 2011, the plaintiff in the Delaware Action filed his amended complaint adding similar disclosure claims. The plaintiffs in both lawsuits seek to enjoin the consummation of the Merger and seek an award of the costs of the action, including reasonable allowances for attorneys’ and experts’ fees, among other relief. On October 7, 2011, defendants in the California Action filed a motion to stay that action pending the resolution of the Delaware Action. On October 3, 2011, the Broadcom defendants filed an answer to the original Delaware Action complaint denying all the substantive allegations and asserting affirmative defenses. On October 13, 2011, the NetLogic defendants filed their answer to the original Delaware Action complaint denying all the substantive allegations and asserting affirmative defenses. On October 19, 2011, the NetLogic defendants filed a motion to dismiss the Delaware Action. On November 11, 2011 the parties to the Delaware and California Actions (the “Actions”) reached an agreement-in-principle memorialized in a Memorandum of Understanding (“MOU”) that provides for a settlement of the Actions. The MOU provided that NetLogic would make certain supplemental disclosures regarding the Merger. Those disclosures and the terms of the proposed settlement were set forth in a Form 8-K filed by NetLogic on November 11, 2011 with the SEC. All further proceedings in the Actions (other than those that relate to the settlement) have been stayed. The settlement is contingent upon, among other things, the certification of a settlement class, notice to the class, a hearing on the settlement, fairness of the settlement, approval

of the settlement by the Court in the California Action, and the closing of the Merger.

We are not involved in any other legal proceedings that management believes will have a material adverse effect our business, results of operations, financial position or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information for Common Stock

Our common stock is traded on the Global Select Market of the NASDAQ Stock Market under the symbol "NETL". The following table sets forth, for the periods indicated, the intra-day high and low per share sale prices of our common stock, as reported on the Global Select Market.*

	Price Range Per Share	
	High	Low
Fiscal 2011		
Fourth quarter	\$49.60	\$47.94
Third quarter	\$48.50	\$25.83
Second quarter	\$43.71	\$33.09
First quarter	\$43.59	\$30.55
Fiscal 2010		
Fourth quarter	\$34.35	\$25.12
Third quarter	\$34.50	\$22.94
Second quarter	\$35.00	\$25.29
First quarter	\$31.49	\$20.40

* Share price data have been retroactively adjusted as appropriate to reflect the two-for-one stock dividend we paid on March 19, 2010.

Holders

As of January 31, 2012, there were approximately 93 holders of record (not including beneficial holders of stock held in street names) of our common stock.

Dividend Policy

We have not declared or paid cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. The terms and conditions of the agreement with Broadcom Corporation also preclude us from declaring or paying any dividends. We expect to retain future earnings, if any, to fund the development and growth of our business. Our board of directors will determine future dividends, if any.

On February 16, 2010, the Board of Directors approved a two-for-one stock split of our common stock, to be effected pursuant to the issuance of additional shares as a stock dividend. The stock dividend was paid on March 19, 2010 to stockholders of record as of March 5, 2010. All share and per share amounts in this Form 10-K have been retroactively adjusted to reflect the stock split for all periods presented.

Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12 of Part III of this Report regarding information about securities authorized for issuance under our equity compensation plans.

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Performance Graph

The following graph shows the five-year cumulative total stockholder return (change in stock price plus reinvested dividends) assuming the investment of \$100 on December 31, 2006 in each of the Company's common stock, the S&P 500 Index and the Philadelphia Semiconductor Index. The comparisons in the table are required by the SEC and are not intended to forecast or be indicative of possible future performance of the Company's common stock.

COMPARISON OF 5 YEARS CUMULATIVE TOTAL RETURN

Among NetLogic Microsystems, Inc., the S&P 500 Index
and the Philadelphia Semiconductor Index

	Cumulative Total Returns					
	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
NetLogic Microsystems, Inc.	\$ 100.00	\$ 148.39	\$ 101.47	\$ 213.18	\$ 289.49	\$ 456.87
S&P 500 Index	\$ 100.00	\$ 103.53	\$ 63.69	\$ 78.62	\$ 88.67	\$ 88.67
Philadelphia Semiconductor Index	\$ 100.00	\$ 87.37	\$ 45.43	\$ 77.06	\$ 88.18	\$ 78.03

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

The following selected consolidated financial data are qualified by reference to, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and related Notes included in Item 8 of this report, which discusses factors affecting the comparability of such financial data.

The selected balance sheet data as of December 31, 2011 and 2010 and selected statements of operations data for the years ended December 31, 2011, 2010 and 2009 are derived from our audited financial statements included elsewhere in this report. The selected balance sheet data as of December 31, 2009, 2008 and 2007 and the selected statements of operations data for the years ended December 31, 2008 and 2007 were derived from financial statements not included in this report. Our historical results are not necessarily indicative of our future results. All share and per share amounts presented below have been retroactively adjusted to reflect the 2-for-1 stock split of our common stock that was paid on March 19, 2010 to stockholders of record as of March 5, 2010.

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share data)				
Statements of Operations Data:					
Revenue	\$ 405,413	\$ 381,745	\$ 174,689	\$ 139,927	\$ 109,033
Cost of revenue	156,488	173,427	99,251	61,616	44,732
Gross profit	248,925	208,318	75,438	78,311	64,301
Operating expenses:					
Research and development	153,459	127,697	73,631	51,607	45,175
In-process research and development	-	-	-	-	1,610
Selling, general and administrative	90,799	78,879	43,931	26,567	19,672
Change in contingent earn-out liability	14,459	71,725	2,008	-	-
Acquisition-related costs	10,743	735	5,412	-	-
Total operating expenses	269,460	279,036	124,982	78,174	66,457
Income (loss) from operations	(20,535)	(70,718)	(49,544)	137	(2,156)
Other income (expense):					
Gain recognized on investment in Optichron, Inc.	4,259	-	-	-	-
Impairment charge on other investments	(1,276)	-	-	-	-
Interest income	539	409	992	1,595	4,431
Interest expenses	(171)	(480)	(1,666)	(33)	-
Other income (expense), net	172	(54)	(4)	(59)	32
Total interest and other income (expense), net	3,523	(125)	(678)	1,503	4,463
Income (loss) before income taxes	(17,012)	(70,843)	(50,222)	1,640	2,307
Provision for (benefit from) income taxes	39,690	(4,472)	(3,060)	(1,937)	(288)
Net income (loss)	\$ (56,702)	\$ (66,371)	\$ (47,162)	\$ 3,577	\$ 2,595
Net income (loss) per share - basic	\$ (0.82)	\$ (1.10)	\$ (1.02)	\$ 0.08	\$ 0.06
Net income (loss) per share - diluted	\$ (0.82)	\$ (1.10)	\$ (1.02)	\$ 0.08	\$ 0.06
Shares used in calculation - basic	69,190	60,426	46,182	42,944	41,494
Shares used in calculation - diluted	69,190	60,426	46,182	44,628	43,876
December 31,					
	2011	2010	2009	2008	2007
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 258,868	\$ 256,167	\$ 44,278	\$ 96,541	\$ 50,689

and short-term investments

Working capital	254,839	278,311	67,008	87,853	63,956
Total assets	775,090	712,589	531,872	245,771	203,151
Contingent earn-out liability	57,934	-	11,687	-	-
Software licenses	8,259	6,547	5,446	1,219	2,528
Stockholders' equity	639,702	618,913	425,955	200,267	171,888

The selected consolidated financial data presents financial information in the relevant periods for the acquisitions of Optichron, Inc. in April 2011, of the IDT NSE business in July 2009, of RMI Corporation in late October 2009, of the TCAM2 and TCAM-CR network search engine products and certain related assets from Cypress Semiconductor Corporation in August 2007, and of Aeluros, Inc. in late October 2007. See Note 2 of Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K for further discussion of recent acquisitions. The comparability of the data in the table above is also affected by our adoption of various new accounting guidance in the periods presented, specifically, those related to business combinations in 2009 and income taxes in 2007.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We are a leading fabless semiconductor company that designs, develops and sells proprietary high-performance processors and high speed integrated circuits used to enhance the performance, functionality and energy efficiency of advanced mobile wireless infrastructure, data center, enterprise, metro Ethernet, edge and core infrastructure networks. Our market-leading product portfolio includes high-performance multi-core communications processors, knowledge-based processors, high-speed 10/40/100 Gigabit Ethernet physical layer devices, digital front-end processors, network search engines, and ultra low-power embedded processors. These products are designed into high-performance systems such as switches, routers, wireless base stations, access aggregation, radio network controllers, security appliances, networked storage appliances, service gateways and connected media devices offered by leading original equipment manufacturers (OEMs).

The products and technologies we have developed and acquired are targeted to enable our customers to develop systems that support the increasing speeds and complexity of Internet Protocol (IP) networks. We believe there is a growing need to include high-performance multi-core processors, knowledge-based processors, high speed physical layer devices, and digital front-end processors in a larger number of communication equipment systems as networks transition to processing traffic at increasing speeds and complexity.

The equipment and systems that use our products are technically complex. As a result, the time from our initial customer engagement design activity to volume production can be lengthy and may require considerable support from our design engineering, research and development, sales, and marketing personnel in order to secure the engagement and commence product sales to the customer. Once the customer's equipment is in volume production, however, it generally has a life cycle of three to five years and requires less ongoing support.

We derive revenue primarily from sales of semiconductor products to OEM and their contract manufacturers, and to our distributors and international sales representatives. Usually, we initially sell product for a new design directly to OEM customers. Once their design enters production, the OEM customers frequently outsource their manufacturing to contract manufacturers that purchase our products directly from us or from our distributors and international sales representatives. We maintain inventory, or "hubbing", arrangements with some of these customers, including our largest customer, Cisco and its supplier, Wintec Industries. Pursuant to these arrangements, we deliver products to a customer, an intermediary or a designated third party warehouse based upon the customer's projected needs, but do not recognize product revenue unless and until the customer, intermediary or third-party warehouse reports it has removed, or pulled, our product from the warehouse to be incorporated into the customers' end products.

We also use distributors to provide valuable assistance to end-users in delivery of our products and related services. Our distributors are used to support our international sales logistics principally in Asia. In accordance with standard market practice, our distributor agreements generally limit the distributor's ability to return product up to a portion of purchases in the preceding quarter and limit price protection for inventory on-hand if we subsequently lower prices on our products. We recognize revenue from sales through distributors at the time of shipment to end customers reported by our distributors.

As a fabless semiconductor company, our business is less capital intensive than others because we rely on third parties to manufacture, assemble, and test our products. In general, we do not anticipate making significant capital expenditures aside from business acquisitions that we might make from time to time. In the future, as we launch new products or expand our operations, however, we may require additional funds to procure product mask sets, order

elevated quantities of wafers from our foundry partners, perform qualification testing and assemble and test those products.

Because we purchase all wafers from suppliers with fabrication facilities and outsource the assembly and testing to third party vendors, a significant portion of our cost of revenue consists of payments to third party vendors.

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Recent Acquisitions

On April 5, 2011, we completed the acquisition of Optichron, Inc. (“Optichron”), a provider of 3G/4G LTE base station digital front-end processors for approximately \$77.2 million cash consideration at closing, plus potential additional cash earn-out consideration of up to approximately \$109 million payable by March 31, 2013, and approximately \$12 million that would be paid in shares of our common stock. As of December 31, 2011, we have accrued a contingent earn-out liability of \$57.9 million and expect to pay \$51.7 million in March 2012. The second earn-out installment is payable in March 2013.

On October 30, 2009, we completed our acquisition of RMI Corporation, a provider of high-performance and low-power communication, multi-threaded processors and delivered merger consideration of approximately 9.9 million shares of our common stock (valued at \$188.5 million) and \$12.6 million cash to the paying agent for distribution to the former holders of RMI capital stock. Additionally, in December 2010 we issued approximately 2.4 million shares of our common stock and paid \$11.5 million cash to the former holders of RMI capital stock as earn-out consideration based upon achievement of 95.3% of revenue targets for the 12-month period from November 1, 2009 through October 31, 2010.

On July 17, 2009, we completed the IDT NSE acquisition. The acquisition was accounted for as a business combination during the third quarter of 2009. As purchase consideration we paid \$98.2 million in cash, net of a price adjustment based on a determination of the actual amount of inventory received.

On October 24, 2007, we completed the acquisition of Aeluros, Inc. which was accounted for as a business combination under accounting standards in effect during the fourth quarter of 2007. We paid \$57.1 million in cash upon the closing of the transaction. Under the terms of the definitive agreement, we paid additional \$15.5 million cash in February 2009 based on the attainment of revenue performance milestones for the acquired business during the one year period following the close of the transaction.

Our results of operations for the year ended December 31, 2009 did not include revenues and costs associated with the RMI and IDT NSE acquisitions prior to their respective acquisition dates of October 30, 2009 and July 17, 2009 whereas the results of operations in 2010 reflect revenues and costs attributable to the combined company and consequently are substantially higher than the results in 2009.

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Outlook and Challenges

In order to add to our intrinsic long term growth rate, we may continue to seek strategic partnerships and other potential opportunities to grow our product portfolio, increase the total available market for our products, and widen our engineering talent pool in areas that are highly complementary and synergistic with our core competencies and increase our strategic importance to key customers. At the same time, we must closely monitor the growth of our headcount and business operations so that our increased investments are in line with our revenue levels and our financial objectives.

Our product revenue is concentrated among a small number of large customers. For the year ended December 31, 2011, our top five customers in terms of revenue accounted for approximately 57% of total product revenue. Although we believe our revenues will continue to be concentrated among our largest customers, because of concentration in the networking equipment business, we expect that continued favorable market trends, such as the increasing number of 10 Gigabit ports as enterprises and datacenters upgrade their legacy networks to better accommodate the proliferation of video and virtualization applications, and the growing mobile wireless infrastructure and IPTV markets, will enable us to broaden our customer base. Additionally, our expanding product portfolio will also help us further diversify our customer and product revenues as well as expand our offerings to our existing customers.

For 2011, 31% of our product revenue was realized through inventory, or “hubbing”, arrangements with certain customers, including our largest customer, Cisco and its supplier, Wintec Industries. In the future, we may have more of our larger customers adopting these hubbing arrangements. Pursuant to these arrangements, we deliver products to a customer, an intermediary or a designated third party warehouse based upon the customer’s projected needs, but do not recognize product revenue unless and until the customer, intermediary or third-party warehouse reports it has removed, or pulled, our product from the warehouse to be incorporated into the customers’ end products. Historically, we have had reasonable visibility of our customers’ requirements within a quarter, and typically commit resources and incur expense based on our projections. However, if a customer that uses a hubbing arrangement does not take delivery of products in accordance with the schedule it originally provided to us, our predicted future revenue stream could vary substantially from our forecasts, and our results of operations could be materially and adversely affected. In addition, although we own the inventory physically located at these hubs, our ability to effectively manage inventory levels may be restricted, causing our total inventory levels to increase. This, in turn, could increase our expenses associated with excess and obsolete product and negatively impact our cash flows.

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Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the U.S. requires management to make fair and reasonable estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses during the period reported. The following accounting policies require management to make estimates and assumptions. These estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary. If actual results differ significantly from management's estimates, our financial statements could be materially impacted. Our estimates are guided by observing the following critical accounting policies.

Revenue Recognition. We derive our revenue primarily from sales of semiconductor products. We recognize revenue when all of the following criteria have been met: (i) persuasive evidence of a binding arrangement exists, (ii) delivery has occurred, (iii) the price is deemed fixed or determinable and free of contingencies and significant uncertainties, and (iv) collection is reasonably assured. The price is considered fixed or determinable at the execution of an agreement, based on specific products and quantities to be delivered at specified prices, which is often memorialized with a customer purchase order. We assess the ability to collect from our customers based on a number of factors, including credit worthiness and any past transaction history of the customer.

Shipping charges billed to customers are included in product revenue and the related shipping costs are included in cost of revenue. Revenue consists primarily of sales of our products to OEM customers and their contract manufacturers, and to our distributors and international sales representatives. Initial sales of our products for a new design are usually made directly to OEM customers as they design and develop their product. Once their design enters production, they often outsource their manufacturing to contract manufacturers that purchase our products directly from us or from our distributors and international sales representatives.

We generally recognize revenue at the time of shipment to OEM customers and their contract manufacturers and our international sales representatives. Product revenue and costs relating to sales made through distributors with rights of return and price credits are deferred until the distributors sell the product to end customers whereupon our selling price becomes fixed or determinable and we are able to reasonably estimate future returns. Therefore, revenue recognition depends on notification from the distributor that product has been sold to an end customer. Additionally, on each reporting date we record a reduction in accounts receivable and deferred revenue based on our estimate of the margin to be ultimately recognized upon sale of the product to end customers.

We deliver and maintain inventory, or “hubbing” arrangements with certain customers, including our largest customer, Cisco and its supplier, Wintec Industries, as described above. We generally recognize revenue when the customer, intermediary or third-party warehouse reports it has removed, or pulled, our product from the warehouse to be incorporated into the customers’ end products.

We have also entered into licensing agreements with some of our customers. For these license arrangements we recognize revenue under the proportionate performance method provided that fees are fixed or determinable and collectability is reasonably assured. When such license arrangements contain multiple elements (e.g., license grants and services), we review each element to determine the separate units of accounting that exist within the agreement. If more than one unit of accounting exists, we generally allocate consideration payable to us under the agreement to each unit of accounting using the relative fair value method. We recognize revenue for each unit of accounting when the revenue recognition criteria have been met for that unit of accounting.

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Inventory Valuation and Adverse Purchase Commitments. We value our inventories at the lower of cost or market, cost being determined using the weighted average method. We record inventory reserves for estimated obsolescence or unmarketable inventories based upon assumptions about future demand and market conditions. These estimates are generally based on a 12-month forecast prepared by management. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of. If actual market conditions are less favorable than those expected by management, additional adjustment to inventory valuation may be required. The carrying value of inventory and the determination of possible adverse purchase commitments are dependent on our estimate of the yield that will be achieved, or the percent of good products that will be identified when the completed product is tested.

Warranty Accrual. We provide a limited warranty on our products for a period ranging from one to five years from the date of sale. We accrue for the estimated future costs of repair or replacement when revenue is recognized for products sold. The warranty accrual is estimated based on historical claims compared to actual revenue.

Allowance for Doubtful Accounts. In order to determine the collectability of our accounts receivable, we continually assess factors such as previous customer transactions and the credit-worthiness of the customer. To date, our accounts receivable write-offs have been immaterial. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of certain customers to make required payments. Allowances are typically established for accounts aged over 90 days from the invoice date, unless specific circumstances indicate that the balance is collectible.

Accounting for Income Taxes. We account for income taxes under an asset and liability approach that requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of timing differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to amounts expected to be realized.

We also recognize liabilities for uncertain tax positions based on a two-step process prescribed in Accounting Standards Code (“ASC”) 740-10, Income Taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on many factors, including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Cash, Cash Equivalents and Marketable Securities. We consider all highly liquid investments purchased with a remaining maturity of three months or less at the date of purchase to be cash equivalents. We diversify our deposits with high credit quality financial institutions. Deposits held in money market funds are stated at cost, which approximates market value. Money market deposits are readily convertible to cash and are classified as cash equivalents. Marketable securities held by us, which are all available-for-sale investments and carried at fair value, consist of U.S. government agency securities and U.S. treasury securities. The cost of securities sold is accounted for based on the specific identification method. Marketable securities with remaining contractual maturities on the date of purchase greater than 90 days are classified as short-term even though the contractual maturities may be greater than one year because such investments, which are highly liquid, represent funds available for use in current operations. These investments are monitored for impairment periodically and reductions in carrying value are recorded against earnings when the declines are determined to be other-than-temporary.

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Long-term Investments. From time to time we make debt and equity investments in non-publicly traded companies. These investments are included in “Other Assets” on our Consolidated Balance Sheets. Debt investments are available-for-sale investments and are carried at fair value. Equity investments are accounted for under the cost method as we do not have the ability to exercise significant influence over the respective investee’s operating and financial policies and the Company is not the primary beneficiary. One of the investments is considered a variable interest entity and as of December 31, 2011, our maximum exposure to loss was limited to \$11.6 million. We monitor our available-for-sale debt investments and cost-method equity investments in non-publicly traded companies for impairment on a quarterly basis and record appropriate reductions in carrying values against earnings when such impairments are determined to be other-than-temporary. Factors considered in determining an impairment include, but are not limited to, the current business environment including competition and uncertainty of financial condition, going concern considerations such as the rate at which the investee company utilizes cash and the investee company’s ability to obtain additional private financing to fulfill its stated business plan, the need for changes to the investee company’s existing business model due to changing business environments and its ability to successfully implement necessary changes, and comparable valuations. If an investment is determined to be impaired, a further assessment is made as to whether such impairment is other-than-temporary.

Long-lived Assets and Intangible Assets. We assess the impairment of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Whenever events or changes in circumstances suggest that the carrying amount of long-lived assets may not be recoverable, we estimate the future undiscounted cash flows expected to be generated by the asset from its use or eventual disposition. If the sum of the expected future undiscounted cash flows, which includes revenue, is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation.

Goodwill. Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired and liabilities assumed. We evaluate goodwill for impairment at least on an annual basis or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable from its estimated future cash flow. We perform goodwill impairment test for each reporting unit. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired. We perform our goodwill impairment assessment at the Company level, which is our sole reporting unit. We performed our annual goodwill impairment test in the fourth quarter and concluded there was no impairment of goodwill during the years ended December 31, 2011, 2010 and 2009.

Stock-based Compensation. We estimate the fair value of stock options and employee stock purchase plan awards using the Black-Scholes-Merton valuation model which requires the input of highly subjective assumptions, including the option’s expected life, the price volatility of the underlying stock, future forfeitures and related tax effects. When establishing the expected life assumption, we review on a semi-annual basis the historical employee exercise behavior with respect to grants and awards with similar vesting periods. The expected stock price volatility assumption was determined using a combination of the historical and implied volatility of our common stock price. Changes in the subjective assumptions required in the valuation models may significantly affect the estimated value of the awards, the related stock-based compensation expense and, consequently, our results of operations.

Contingent Earn-Out Liability. We have acquired businesses that involve deferred, contingent payments which are based upon achievement of revenues for the acquired business over specified periods and under specified conditions. Under ASC 805, Business Combinations, a liability was recognized at the completion date for each such acquisition equal to the fair value of the acquisition-related contingent consideration based on the probability of achievement of such revenue. Changes in the fair value of such contingent earn-out liabilities subsequent to the acquisition completion date are recognized in earnings in the periods the estimated fair value changes until the amount

of such contingent obligation becomes fixed and determinable. In developing these fair value estimates at each reporting period, we consider revenue projections, historical results, general macro-economic environment and industry trends. These fair value measurements are based on significant inputs not observed in the market and reflect our assumptions.

Other Contingencies. From time to time we are a party either to claims and litigation proceedings arising in the normal course of business or to contractual arrangements that obligates us to indemnify our customers, our lessors, and our directors and officers under certain circumstances. We accrue for losses related to any known contingent liability, including those that may arise from indemnification provisions, when future payment is estimable and probable.

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Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (“FASB”) issued and amended Accounting Standards Update (“ASU”) No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which simplifies how entities test goodwill for impairment. Previous guidance under Topic 350 required an entity to test goodwill for impairment using a two-step process on at least an annual basis. First, the fair value of a reporting unit was calculated and compared to its carrying amount, including goodwill. Second, if the fair value of a reporting unit was less than its carrying amount, the amount of impairment loss, if any, was required to be measured. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more likely than not that its fair value is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. We do not expect this update to have a material impact on our financial position, results of operations or cash flows.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option under current guidance that permits the presentation of other comprehensive income in the statement of changes in stockholders’ equity has been eliminated. In December 2011, the FASB further amended its guidance to defer changes related to the presentation of reclassification adjustments indefinitely as a result of concerns raised by stakeholders that the new presentation requirements would be difficult for preparers and add unnecessary complexity to financial statements. The amendment (other than the portion regarding the presentation of reclassification adjustments which, as noted above, has been deferred indefinitely) becomes effective during the first quarter of the Company’s fiscal year ending December 31, 2012. Early adoption is permitted. The amendment will impact the presentation of the financial statements but will not impact the Company’s financial position, results of operations or cash flows.

In May 2011, the FASB amended its guidance, to converge fair value measurement and disclosure guidance in U.S. GAAP with International Financial Reporting Standards (“IFRS”). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. The amendment changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendment to result in a change in the application of the requirements in the current authoritative guidance. The amendment becomes effective prospectively for our interim period ending March 31, 2012. Early application is not permitted. We do not expect the amendment to have a material impact on our financial position, results of operations or cash flows.

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Results of Operations

Comparison of Year Ended December 31, 2011 to Year Ended December 31, 2010

Revenue, cost of revenue and gross profit

The table below sets forth our revenue, cost of revenue and gross profit data for the years ended December 31, 2011 and 2010 (in thousands, except percentage data):

	Year ended December 31, 2011	Percentage of Revenue	Year ended December 31, 2010	Percentage of Revenue	Year-to-Year Change	Percentage Change
Revenue	\$ 405,413	100.0 %	\$ 381,745	100.0 %	\$ 23,668	6.2 %
Cost of revenue	156,488	38.6 %	173,427	45.4 %	(16,939)	-9.8 %
Gross profit	\$ 248,925	61.4 %	\$ 208,318	54.6 %	\$ 40,607	19.5 %

Revenue. Revenue for the year ended December 31, 2011 increased by \$23.7 million compared with that of the year ended December 31, 2010. Revenue from sales to Wintec, Cisco and Cisco's contract manufacturers (collectively "Cisco") represented \$92.7 million of our total revenue for the year ended December 31, 2011, compared with \$102.6 million during the year ended December 31, 2010. The decrease in sales to Cisco was primarily due to declines in revenue from sales of legacy network search engines and communication processors totaling \$13.8 million, despite growth in other sales of other products, principally in knowledge based processors and physical layer products, totaling \$3.9 million. Revenue from non-Cisco customers represented \$312.7 million of total revenue for the year ended December 31, 2011 compared with \$279.2 million during the year end December 31, 2010. Increased revenues from sales of our products to non-Cisco customers primarily consisted of \$20.0 million from digital front-end processors, \$15.2 million from communication processors, and \$8.3 million from physical layer products, partially offset by declines of \$10.2 million in network search engine and other legacy products. During the year ended December 31, 2011, Huawei accounted for 13% of our total revenue compared with 12% in 2010, and Alcatel-Lucent accounted for less than 10% of our total revenue compared with 10% in 2010.

Cost of Revenue/Gross Profit/Gross Margin. Cost of revenue for the year ended December 31, 2011 decreased by \$16.9 million compared with that of the year ended December 31, 2010. Cost of revenue decreased primarily due to lower product costs, as well as a reduction of \$2.4 million in fair value adjustments for acquired inventory. The reduced product costs reflect manufacturing efficiencies due to design, as well as lower material costs. The decrease was partially offset by increased amortization charges of \$8.8 million associated with the Optichron acquisition, as well as amortization of the completed XLP® processor intangible asset. Gross margin for the year ended December 31, 2011 increased to 61.4% compared with 54.6% for the year ended December 31, 2010, despite higher intangible asset amortization charges. The improvement in margin principally reflects the effects of favorable changes in product mix including sales of digital front-end processors and increased revenues of multi-core communication processors which command higher margins.

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Operating expenses

The table below sets forth operating expense data for the years ended December 31, 2011 and 2010 (in thousands, except percentage data):

	Year ended December 31, 2011	Percentage of Revenue	Year ended December 31, 2010	Percentage of Revenue	Year-to-Year Change	Percentage Change
Operating expenses:						
Research and development	\$ 153,459	37.9 %	\$ 127,697	33.5 %	\$ 25,762	20.2 %
Selling, general and administrative	90,799	22.4 %	78,879	20.7 %	11,920	15.1 %
Change in contingent earn-out liability	14,459	3.6 %	71,725	18.8 %	(57,266)	-79.8 %
Acquisition-related costs	10,743	2.6 %	735	0.2 %	10,008	1361.6 %
Total operating expenses	\$ 269,460	66.5 %	\$ 279,036	73.1 %	\$ (9,576)	-3.4 %

Research and Development Expenses. Research and development expenses increased during the year ended December 31, 2011, as compared with fiscal 2010, primarily due to increases in payroll and payroll related expenses of \$11.5 million, stock-based compensation expenses of \$7.6 million, depreciation expenses of \$3.2 million, product development and qualification expenses of \$0.6 million, and consulting expenses of \$0.4 million. The increases in payroll and related expenses, as well as stock-based compensation expense, were primarily due to retention of and increases in engineering headcount, including those associated with the Optichron acquisition, to support our new product development efforts. The increase in depreciation expense was primarily due to higher levels of capital expenditures on CAD tools and licenses which are used in product development. The remainder of the increase in research and development expense was caused by individually minor items.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased during the year ended December 31, 2011, as compared with fiscal 2010, primarily due to increases in payroll and related expenses of \$5.8 million, stock-based compensation expenses of \$1.8 million, marketing and commission expenses of \$1.1 million, depreciation and amortization expense of \$2.4 million, software license and maintenance of \$0.5 million, and travel related expenses of \$0.8 million. These increases were offset by a decline in non acquisition-related legal expense of \$1.0 million. In addition to a one-time charge of \$4.4 million for stock and cash compensation associated with an officer's separation package, the increases reflect higher spending levels to support our growing operations in the sales and marketing areas, as well as our infrastructure needs. The remainder of the increase in selling, general and administrative expenses was caused by individually minor items.

Change in Contingent Earn-Out Liability. The change in estimated contingent earn-out liability recorded during the year ended December 31, 2011 related to the Optichron acquisition and was due primarily to an increase in the probability weighted revenue achievement from the acquisition date to December 31, 2011 and the completion of the first earn-out measurement period. We may continue to record significant changes in the fair value of the contingent earn-out consideration through December 31, 2012.

Acquisition-Related Costs. Acquisition-related costs associated with the Optichron acquisition and our pending acquisition by Broadcom were \$10.7 million for the year ended December 31, 2011 and consisted of professional and

legal fees of \$8.6 million, severance expenses of \$0.9 million, pending litigation settlement costs of \$0.8 million, and filing fees. The charges during the year ended December 31, 2010 related to the IDT NSE and RMI acquisitions and consisted primarily of accounting and audit fees.

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Other items

The tables below set forth other items for the years ended December 31, 2011 and 2010 (in thousands, except percentage data):

	Year ended December 31, 2011	Percentage of Revenue		Year ended December 31, 2010	Percentage of Revenue		Year-to-Year Change	Percentage Change
Other income (expense):								
Gain recognized on investment in Optichron, Inc.	\$ 4,259	1.1 %	\$	-	0.0 %	\$	4,259	n/m
Impairment charge on other investment	(1,276)	-0.3 %	-	-	0.0 %	(1,276)	n/m	
Interest income	539	0.1 %	409	0.1 %	130	31.8 %		
Interest expense	(171)	0.0 %	(480)	-0.1 %	309	-64.4 %		
Other income (expense), net	172	0.0 %	(54)	0.0 %	226	-418.5 %		
Total interest and other income (expense), net	\$ 3,523	0.9 %	\$	(125)	0.0 %	\$	3,648	n/m

Other Income (Expense). In April 2011, we completed the acquisition of Optichron. Prior to the acquisition date, we owned warrants to purchase 5,250,000 shares of Optichron common stock. Upon acquiring the remaining equity interest in Optichron, we recorded a step-acquisition accounting gain on this pre-existing investment of \$4.3 million. During the year ended December 31, 2011, we also recorded an other-than-temporary impairment charge of \$1.3 million associated with our investment in a bridge note which converted into a cost-method equity investment in July 2011.

	Year ended December 31, 2011	Percentage of Pre-Tax Income		Year ended December 31, 2010	Percentage of Pre-Tax Income		Year-to-Year Change	Percentage Change
Provision for (Benefit from) income taxes	\$ 39,690	-233.3 %	\$	(4,472)	6.3 %	\$	44,162	-987.5 %

Provision for (Benefit from) Income Taxes. During the year ended December 31, 2011, we recorded an income tax provision of \$39.7 million. Our effective tax rate was -233.3% for the year ended December 31, 2011 compared with the United States statutory tax rate of 35%. The difference was primarily due to recording a full valuation allowance in the U.S. as of December 31, 2011. The valuation allowance is based on our assessment that we cannot conclude that it is more likely than not that certain deferred tax assets will be realized in the foreseeable future. As of December 31, 2011 and December 31, 2010, we had a valuation allowance of approximately \$56.8 million and \$8.5 million, respectively. We concluded that a full valuation allowance should be recorded in the U.S. as of December 31, 2011 to the extent that deferred tax assets are not supportable with sources of income like liabilities for uncertain tax positions.

The Internal Revenue Service has notified us that it will commence an examination of our 2007 and 2009 tax returns. We are also under audit by the California Franchise Tax Board for our 2006 and 2007 tax returns. We believe that we have adequately provided for any reasonably foreseeable adjustment and that any settlement will not have a material effect on our consolidated financial position, results of operations, or cash flows.

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Results of Operations

Comparison of Year Ended December 31, 2010 to Year Ended December 31, 2009

Revenue, cost of revenue and gross profit

The table below sets forth our revenue, cost of revenue and gross profit data for the years ended December 31, 2010 and 2009 (in thousands, except percentage data):

	Year ended December 31, 2010	Percentage of Revenue	Year ended December 31, 2009	Percentage of Revenue	Year-to-Year Change	Percentage Change
Revenue	\$ 381,745	100.0 %	\$ 174,689	100.0 %	\$ 207,056	118.5 %
Cost of revenue	173,427	45.4 %	99,251	56.8 %	74,176	74.7 %
Gross profit	\$ 208,318	54.6 %	\$ 75,438	43.2 %	\$ 132,880	176.1 %

Revenue. Revenue for the year ended December 31, 2010 increased by \$207.1 million compared with that of the year ended December 31, 2009. Revenue from sales to Wintec, Cisco and Cisco's contract manufacturers (collectively "Cisco") represented \$102.6 million of our total revenue for the year ended December 31, 2010, compared with \$61.7 million during the year ended December 31, 2009. The increase in sales to Cisco was primarily due to an increase of \$24.1 million from sales of knowledge based processors, \$13.8 million in revenue from sales of NetLite processors and network search engine products, and \$3.0 million in revenue from sales of communication processors. Revenue from non-Cisco customers represented \$279.2 million of total revenue for the year ended December 31, 2010 compared with \$113.0 million during the year end December 31, 2009. Increased revenues from sales of our products to non-Cisco customers primarily consisted of \$70.9 million from communication processors, \$16.5 million from physical layer products, \$29.8 million from NetLite processors and network search engine products, \$25.5 million from knowledge based processors, and \$23.1 million from ultra low-power embedded processors. During the year ended December 31, 2010, Alcatel-Lucent accounted for 10% of our total revenue compared with 13% in 2009, and Huawei accounted for 12% of our total revenue compared with 10% in 2009. The IDT NSE acquisition which closed in July 2009 added products to our existing networks search engine solutions while the RMI acquisition which closed in October 2009 broadened our product offerings to include communication processors and ultra-low power embedded processors. Of the 119% increase in revenue in the year ended December 31, 2010 over the same period in 2009, 70% was represented by revenue from products that we acquired in the IDT NSE and RMI acquisitions in 2009.

Cost of Revenue/Gross Profit/Gross Margin. Cost of revenue for the year ended December 31, 2010 increased by \$74.2 million compared with that of the year ended December 31, 2009. Cost of revenue increased primarily due to the increase in product sales, an increase in the provision for excess/obsolete inventory, an increase in amortization of intangible assets, partially offset by a decrease in fair value adjustments related to acquired inventory. As a result of IDT NSE and RMI acquisitions during 2009, amortization of intangible assets increased from \$18.9 million for the year ended December 31, 2009 to \$39.5 million for the year ended December 31, 2010. Due to the depletion of acquired inventory, fair market value adjustments for acquired inventory decreased from \$20.4 million for the year ended December 31, 2009 to \$16.0 million for the year ended December 31, 2010. In addition, provision for excess/obsolete inventory increased from \$1.9 million for the year ended December 31, 2009 to \$6.1 million for the year ended December 31, 2010. Gross margin for the year ended December 31, 2010 increased to 54.6% compared with 43.2% for the year ended December 31, 2009, primarily due to higher sales levels to absorb charges such as amortization of intangible assets and fair value adjustments related to acquired inventory, and a favorable change in product mix.

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Operating expenses

The table below sets forth operating expense data for the years ended December 31, 2010 and 2009 (in thousands, except percentage data):

	Year ended December 31, 2010	Percentage of Revenue	Year ended December 31, 2009	Percentage of Revenue	Year-to-Year Change	Percentage Change
Operating expenses:						
Research and development	\$ 127,697	33.5 %	\$ 73,631	42.1 %	\$ 54,066	73.4 %
Selling, general and administrative	78,879	20.7 %	43,931	25.1 %	34,948	79.6 %
Change in contingent earn-out liability	71,725	18.8 %	2,008	1.1 %	69,717	-
Acquisition-related costs	735	0.2 %	5,412	3.1 %	(4,677)	-
Total operating expenses	\$ 279,036	73.1 %	\$ 124,982	71.5 %	\$ 154,054	123.3 %

Research and Development Expense. Research and development expense increased during the year ended December 31, 2010, as compared with the same period in 2009, primarily due to increases in payroll and payroll related expenses of \$20.8 million, stock-based compensation expense of \$4.2 million, infrastructure expenses of \$5.1 million, product development and qualification expenses of \$9.4 million, software license expense of \$3.8 million, consulting services of \$6.0 million, depreciation expense of \$3.4 million, and travel expense of \$1.0 million. The increase in payroll and payroll related expenses, infrastructure expense, travel expense and stock-based compensation expense was primarily due to increases in engineering headcount to support our new product development efforts, and as a result of the RMI acquisition in October 2009. The increase in product development and qualification expense and consulting services was primarily due to the production qualification and characterization of new products submitted for tape-out. The increase in software license expense and depreciation expense was primarily due to increased activity levels in research and development projects. The remainder of the increase in research and development expenses was caused by individually minor items.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased during the year ended December 31, 2010, as compared with the same period in fiscal 2009, primarily due to increases in payroll and payroll related expenses of \$14.1 million, stock-based compensation expense of \$3.3 million, infrastructure expense of \$2.2 million, consulting services of \$4.1 million, legal expense of \$2.8 million, marketing and commission expense of \$3.4 million, and travel expense of \$1.7 million. The increase in payroll and payroll related expenses, stock-based compensation expense and travel expense resulted primarily from increases in headcount to support our growing operations in the sales and marketing areas, and as a result of the RMI acquisition in October 2009. The increase in consulting expenses, and marketing and commission expense was primarily due to increased level of selling and marketing activity, including activities to support the acquired RMI products. Legal expense increased primarily for additional patent prosecution work. Selling, general and administrative expenses also included \$3.7 million of amortization expense for intangible assets comprised of customer contracts and relationships, tradenames and trademarks, and non-competition agreements intangible assets for the year ended December 31, 2010, compared with \$1.8 million in the same period in 2009. The remainder of the fluctuation in selling, general and administrative expenses was caused by individually minor items.

Change in Contingent Earn-Out Liability. The change in contingent earn-out liability payable to the former holders of RMI capital stock was due to an increase in the market price of our common stock as well as the actual achievement of revenue earn-out target of approximately 95.3% at October 31, 2010, compared to our stock price and our estimated earn-out achievement of approximately 80% at December 31, 2009. The total earn-out payment for the RMI acquisition was accrued and paid in 2010.

Acquisition-Related Costs. Acquisition and integration-related costs associated with our IDT NSE and RMI acquisitions declined from \$5.4 million for the year ended December 31, 2009 to \$0.7 million for the same period in 2010. The savings primarily related to \$1.9 million of reduced legal expenses, \$0.9 million of reduced severance expense, and reduced fees for various consulting, outside vendor services, and other professional services.

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Other items

The tables below set forth other items for the years ended December 31, 2010 and 2009 (in thousands, except percentage data):

	Year ended December 31, 2010	Percentage of Revenue	Year ended December 31, 2009	Percentage of Revenue	Year-to-Year Change	Percentage Change
Interest and other income (expense), net:						
Interest income	\$ 409	0.1 %	\$ 992	0.6 %	\$ (583)	-58.8 %
Interest expense	(480)	-0.1 %	(1,666)	-1.0 %	1,186	-71.2 %
Other income (expense), net	(54)	0.0 %	(4)	0.0 %	(50)	0.0 %
Total interest and other income (expense), net	\$ (125)	-0.1 %	\$ (678)	-0.4 %	\$ 553	-81.6 %

Other Income (Expense). Interest income decreased during the year ended December 31, 2010, as compared with fiscal 2009, primarily due to the absence of interest income from an RMI bridge loan which was extinguished in October 2009. Interest expense decreased during the year ended December 31, 2010, as compared with fiscal 2009, primarily due to the absence of interest costs associated with servicing outstanding line of credit and term notes during 2009. The line of credit and term notes were fully repaid in December 2009.

	Year ended December 31, 2010	Percentage of Pre-Tax Income	Year ended December 31, 2009	Percentage of Pre-Tax Income	Year-to-Year Change	Percentage Change
Benefit from income taxes	\$ (4,472)	6.3 %	\$ (3,060)	6.1 %	\$ (1,412)	46.1 %

Benefit from Income Taxes. During the year ended December 31, 2010, we recorded an income tax benefit of \$4.5 million. Our effective tax rate of 6.3% for the year ended December 31, 2010 was primarily driven by a research and development tax credits, book losses generated in the United States, and the tax impact of non-deductible expenses such as stock-based compensation expenses and acquisition-related expenses.

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Liquidity and Capital Resources

Financial Condition

Our principal sources of liquidity are our cash, cash equivalents and marketable securities of \$258.9 million as of December 31, 2011. The table below sets forth the key components of cash flow for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year ended December 31,		
	2011	2010	2009
Net cash provided by operating activities	\$93,472	\$108,613	\$48,251
Net cash used in investing activities	\$(30,009)	\$(185,245)	\$(128,019)
Net cash provided by financing activities	\$16,041	\$132,877	\$40,572

Commentary on Cash Provided By and Used In 2011 and 2010

Operating Activities

During the year ended December 31, 2011, we generated \$94.1 million in net operating cash flows, compared with \$108.6 million for the year ended December 31, 2010 and \$48.3 million for the year ended December 31, 2009. The primary components of net operating cash flows were as follows:

	Year ended December 31,		
	2011	2010	2009
Net loss	\$(56,702)	\$(66,371)	\$(47,162)
Adjustments for non-cash operating items	169,568	162,350	64,412
	112,866	95,979	17,250
Changes in current assets and liabilities, net of effects of acquisitions	(19,394)	12,634	31,001
	\$93,472	\$108,613	\$48,251

The following commentary relates to changes in current assets and liabilities from amounts as of December 31, 2010 to those as of December 31, 2011:

- Days sales outstanding decreased from 37 days to 36 days due to slightly improved collections.
- Inventory days on hand increased from 85 days to 89 days and was consistent with historical levels of variability, despite growth in the digital front-end processor product line following the acquisition of Optichron and subsequent increases in sales, resulting in cash outflow of \$1.7 million.
- There were no significant changes to our historical business practices that accounted for the changes in accounts payable and accrued liabilities which reduced net operating cash flow by \$ 19.6 million.
- Changes in other items, excluding contingent earn-out liability, caused increases of \$1.5 million to net operating cash flow and were consistent with historical levels of variability.

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Investing Activities

Investing activities used \$30.0 million in cash during the year ended December 31, 2011 and primarily related to \$74.7 million paid in connection with the acquisition of Optichron, net of cash acquired, payments of \$13.4 million for purchases of property and equipment, and \$17.5 million for purchases of other assets, partially reduced by cash generated from the net sale of short-term investments of \$75.6 million.

Investing activities used \$185.2 million in cash during the year ended December 31, 2010 primarily related to net purchases of marketable securities of \$156.4 million, property and equipment of \$8.6 million, purchases of other assets of \$8.7 million, and cash payment of \$11.5 million for settlement of contingent earn-out liability.

Net cash used in investing activities was \$128.0 million during the year ended December 31, 2009, of which we used \$107.4 million in cash paid in connection with the IDT NSE and RMI acquisitions, \$15.0 million for the loan to RMI, \$0.4 million for the purchase of non-competition agreements in connection with the RMI acquisition, \$15.5 million for the payment of Aeluros post-acquisition revenue milestone, \$14.6 million for the purchase of short-term investments, \$1.5 million of the purchase of long-term investment and \$1.2 million to purchase property and equipment. Cash used in investing activities was reduced by \$27.7 million for proceeds from sales and maturities of short-term investments.

Financing Activities

Net cash provided by financing activities was \$16.0 million for the year ended December 31, 2011, primarily from proceeds of \$34.0 million from the issuance of common stock under our stock compensation plans. Payments for software licenses and other obligations of \$6.2 million, and tax payments related to vested stock awards of \$11.8 million accounted for cash used in financing activities.

Net cash provided by financing activities was \$132.9 million for the year ended December 31, 2010, primarily from proceeds from issuance of common stock pursuant under to a follow-on public offering of \$117.8 million, net of stock offering costs of \$6.1 million, and proceeds of \$31.7 million from the issuance of common stock under our stock compensation plans, benefits from stock-based awards of \$0.2 million reduced by payments of software license fees and other obligations of \$7.0 million, and tax payments related to vested stock awards of \$3.7 million.

Net cash provided by financing activities was \$40.6 million for the year ended December 31, 2009, primarily from proceeds from our credit facility totaling \$48.0 million, proceeds from the issuance of common stock in connection with a registered shelf offering, net of issuance costs, of \$29.7 million, proceeds of \$17.2 million from the issuance of common stock under our stock compensation plans, and tax benefit from stock-based awards of \$1.5 million. Cash provided by financing activities was reduced for repayment of the entire \$48.0 million of outstanding debt under our credit facility, payment of debt issuance costs of \$1.2 million, tax payments related to vested stock awards of \$4.3 million, and payment of software license fees and other obligations of \$2.3 million.

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Capital Resources

We believe that our existing cash, cash equivalents and marketable securities of \$258.9 million as of December 31, 2011 will be sufficient to meet our anticipated cash needs for at least the next 12 months. As of December 31, 2011, we have an accrued contingent earn-out liability of \$57.9 million and expect to pay \$51.7 million in March 2012. The second earn-out installment is payable in March 2013.

Our future cash needs will depend on many factors, including the amount of revenue we generate, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products, the costs to ensure access to adequate manufacturing capacity, the continuing market acceptance of our products, any future business acquisitions that we might undertake (including the pending acquisition of us by Broadcom). Subject to the terms and conditions of our Merger Agreement with Broadcom, we may seek additional funding through public or private equity or debt financing, and utilize our shelf registration to sell up to \$120 million of our securities from time to time during the next year. We also might decide to raise additional capital at such times and upon such terms as management considers favorable and in our interests, including, but not limited to, from the sale of our debt and/or equity securities (before reductions for expenses, underwriting discounts and commissions) under our existing shelf registration statement or one or more automatic shelf registration statements that we could file from time to time without advance public disclosure. We cannot be certain, however, that we will be able to complete offerings of our securities at such times and on such terms as we may consider desirable for us.

Contractual Obligations

Our principal commitments as of December 31, 2011 are summarized below (in thousands):

	Total	Less than 1 year	1 - 3 years	4 -5 years	After 5 years
Operating lease obligations	\$ 26,825	\$ 3,188	\$ 8,666	\$ 8,709	\$ 6,262
Software license obligations	8,259	5,281	2,978	-	-
Wafer purchases	10,992	10,992	-	-	-
Total	\$ 46,076	\$ 19,461	\$ 11,644	\$ 8,709	\$ 6,262

In addition to the enforceable and legally binding obligations quantified in the table above, we have other obligations for goods and services entered into in the normal course of business. These obligations, however, are either not enforceable or legally binding or are subject to change based on our business decisions.

Due to uncertainty with respect to timing of future cash flows associated with our unrecognized tax benefits at December 31, 2011, we are unable to make a reasonably reliable estimate of the period of cash settlement with the respective taxing authority. Therefore, \$1.9 million of unrecognized tax benefits have not been included in the contractual obligations table above. For further details, see discussion in Note 7 to the Consolidated Financial Statements.

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Off-Balance Sheet Arrangements

As of December 31, 2011, we had no off-balance sheet arrangements as defined by item 303(a)(4)(ii) of Regulation S-K, other than the indemnities, commitments and guarantees discussed below.

Indemnities, Commitments and Guarantees

In the normal course of business, we have made certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include agreements to indemnify our customers with respect to liabilities associated with the infringement of other parties' technology based upon our products, obligations to indemnify or pay damages to our customers for breaches of contractual commitments and product liability or excessive product failure claims, obligations to indemnify our lessors under facility lease agreements, and obligations to indemnify our directors and officers to the maximum extent permitted under the laws of the state of Delaware. Our obligations under these arrangements may have a material impact on our results of operations, financial condition or cash flows. The duration of such indemnification obligations, commitments and guarantees varies and, in certain cases, is indefinite. We have not recorded any liability for any such indemnification obligations, commitments and guarantees in the accompanying balance sheets. We do, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is estimable and probable.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary objective of our investment activities is to preserve principal while maximizing the income we receive from our investments without significantly increasing the risk of loss. Some of the investment securities permitted under our cash management policy may be subject to market risk for changes in interest rates. To mitigate this risk, we plan to maintain a portfolio of cash equivalent and short-term investments in a variety of securities which may include investment grade commercial paper, money market funds, government debt issued by the United States of America, state debt, certificates of deposit and investment grade corporate debt. Presently, we are exposed to minimal market risks associated with interest rate changes. We manage the sensitivity of our results of operations to these risks by maintaining investment grade short-term investments. Our cash management policy does not allow us to purchase or hold derivative or commodity instruments or other financial instruments for trading purposes. Additionally, our policy stipulates that we periodically monitor our investments for adverse material holdings related to the underlying financial solvency of the issuer. As of December 31, 2011, our marketable securities consisted primarily of deposits in money market funds, U.S. treasuries and government agency securities. Our results of operations and financial condition would not be significantly impacted by either a 10% increase or decrease in interest rates.

Our sales outside the United States are transacted in U.S. dollars; accordingly our sales are not generally impacted by foreign currency rate changes. Our operating expenses are denominated primarily in U.S. Dollars, except for expenses incurred by our wholly owned subsidiaries which are denominated in the local currency. To date, fluctuations in foreign currency exchange rates have not had a material impact on our results of operations.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

NETLOGIC MICROSYSTEMS, INC.

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<u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>	<u>57</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009</u>	<u>58</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2011, 2010 and 2009</u>	<u>59</u>
<u>Consolidated Statement of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009</u>	<u>60</u>
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
NetLogic Microsystems, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of NetLogic Microsystems, Inc. and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a) (2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because of a material weakness in internal control over financial reporting related to the evaluation of the accounting for a non-routine severance arrangement existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2011 financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Jose, California
February 15, 2012

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NETLOGIC MICROSYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	December 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 180,027	\$ 100,523
Short-term investments	78,841	155,644
Accounts receivables, net	38,189	19,829
Inventories	35,051	36,290
Deferred income taxes	2,143	8,428
Prepaid expenses and other current assets	8,530	11,458
Total current assets	342,781	332,172
Property and equipment, net	30,115	20,507
Goodwill	166,760	112,700
Intangible assets, net	192,961	180,838
Other assets	42,473	66,372
Total assets	\$ 775,090	\$ 712,589
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,133	\$ 17,257
Accrued liabilities	23,972	27,848
Contingent earn-out liability, current	51,741	-
Deferred margin	815	4,242
Software licenses, current	5,281	4,514
Total current liabilities	87,942	53,861
Contingent earn-out liability, long-term	6,193	-
Software licenses, long-term	2,978	2,033
Other liabilities	38,275	37,782
Total liabilities	135,388	93,676
Commitments and Contingencies (Note 8)		
Stockholders' equity		
Preferred stock; 50,000 shares authorized at December 31, 2011 and 2010; none issued and outstanding at December 31, 2011 and 2010	-	-
Common stock; 200,000 shares authorized at December 31, 2011 and 2010; 71,263 and 67,511 shares issued and outstanding at December 31, 2011 and 2010	713	675
Additional paid-in capital	887,328	807,780
Accumulated other comprehensive loss	(2,123)	(28)
Accumulated deficit	(246,216)	(189,514)
Total stockholders' equity	639,702	618,913
Total liabilities and stockholders' equity	\$ 775,090	\$ 712,589

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

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NETLOGIC MICROSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)

	Year ended December 31,		
	2011	2010	2009
Revenue	\$ 405,413	\$ 381,745	\$ 174,689
Cost of revenue	156,488	173,427	99,251
Gross profit	248,925	208,318	75,438
Operating expenses:			
Research and development	153,459	127,697	73,631
Selling, general and administrative	90,799	78,879	43,931
Change in contingent earn-out liability	14,459	71,725	2,008
Acquisition-related costs	10,743	735	5,412
Total operating expenses	269,460	279,036	124,982
Loss from operations	(20,535)	(70,718)	(49,544)
Other income (expense):			
Gain recognized on investment in Optichron, Inc.	4,259	-	-
Impairment charge on other investment	(1,276)	-	-
Interest income	539	409	992
Interest expense	(171)	(480)	(1,666)
Other income (expense), net	172	(54)	(4)
Total interest other income (expense), net	3,523	(125)	(678)
Loss before income taxes	(17,012)	(70,843)	(50,222)
Provision for (Benefit from) income taxes	39,690	(4,472)	(3,060)
Net loss	\$ (56,702)	\$ (66,371)	\$ (47,162)
Net loss per share-basic	\$ (0.82)	\$ (1.10)	\$ (1.02)
Net loss per share-diluted	\$ (0.82)	\$ (1.10)	\$ (1.02)
Shares used in calculation-basic	69,190	60,426	46,182
Shares used in calculation-diluted	69,190	60,426	46,182

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

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NETLOGIC MICROSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(IN THOUSANDS)

	Year ended December 31,		
	2011	2010	2009
Net loss	\$(56,702)	\$(66,371)	\$(47,162)
Other comprehensive income (loss), net of tax:			
Change in unrealized gain (loss) on marketable securities	8	(28)	13
Unrealized loss on privately held debt investment	(2,131)	-	-
Comprehensive loss	\$(58,825)	\$(66,399)	\$(47,149)

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

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NETLOGIC MICROSYSTEMS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	Common Stock		Additional Paid-In Capital	Accumulated Other Compre- hensive Income (Loss)	Accumulated Deficit	Total Stock-holder's Equity
	Shares	Amount				
Balance at December 31, 2008	43,816	\$ 438	\$ 275,823	\$ (13)	\$ (75,981)	\$ 200,267
Issuance of common stock in connection with the acquisition of RMI	9,920	100	188,427			188,527
Issuance of common stock in connection with stock offering, net of share issuance costs of \$71	1,400	14	29,646			29,660
Issuance of stock under stock compensation plans	2,348	23	12,878			12,901
Recording of stock-based compensation expense			40,660			40,660
Tax benefits of stock options			1,089			1,089
Other comprehensive income				13		13
Net loss					(47,162)	(47,162)
Balance at December 31, 2009	57,484	575	548,523	-	(123,143)	425,955
Issuance of common stock in connection with the earnout consideration payable under the acquisition of RMI	2,391	24	71,859			71,883
Issuance of common stock in connection with a follow-on stock offering, net of share issuance costs of \$6,145	4,084	41	111,627			111,668
Issuance of stock under stock compensation plans	3,552	35	27,959			27,994

Recording of stock-based compensation expense			47,553			47,553
Tax benefits of stock options			259			259
Other comprehensive loss				(28)		(28)
Net loss					(66,371)	(66,371)
Balance at December 31, 2010	67,511	675	807,780	(28)	(189,514)	618,913
Issuance of stock under stock compensation plans	3,752	38	22,228			22,266
Recording of stock-based compensation expense			57,320			57,320
Tax benefits of stock options			-			-
Unrealized losses, net on investments				(2,095)		(2,095)
Net loss					(56,702)	(56,702)
Balance at December 31, 2011	71,263	\$ 713	\$ 887,328	\$ (2,123)	\$ (246,216)	\$ 639,702

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

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NETLOGIC MICROSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net loss	\$(56,702)	\$(66,371)	\$(47,162)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	66,322	52,887	25,361
Loss on disposal of property and equipment	76	43	6
Write-off of debt issuance costs	-	305	524
Amortization of premium related to debt securities, net	1,245	706	-
Stock-based compensation	57,274	47,641	40,755
Stock settled contingent earn-out liability	-	60,625	2,008
Provision for (recovery of) doubtful accounts	(88)	198	4
Provision for inventory reserves	5,866	6,091	1,861
Gain recognized on investment in Optichron, Inc.	(4,259)	-	-
Impairment charge on other investment	1,276	-	-
Deferred income taxes, net	41,856	(5,939)	(4,601)
Excess tax benefit from stock-based awards	-	(207)	(1,506)
Changes in current assets and liabilities, net of effects of acquisitions:			
Accounts receivables	(14,031)	4,804	(7,544)
Inventories	(1,692)	2,613	17,926
Prepaid expenses and other assets	3,024	(3,774)	(1,054)
Accounts payable	(10,074)	(151)	6,379
Accrued liabilities	(9,561)	(5,868)	13,755
Cash settled contingent earn-out liability	14,459	11,099	-
Deferred margin	(4,812)	2,381	1,567
Other long-term liabilities	3,293	1,530	(28)
Net cash provided by operating activities	93,472	108,613	48,251
Cash flows from investing activities:			
Purchase of property and equipment	(13,390)	(8,569)	(1,237)
Purchase of short-term investments	(95,270)	(259,452)	(14,633)
Sales and maturities of short-term investments	170,830	103,054	27,700
Purchase of long term investments and other	(17,500)	(7,500)	(1,500)
Purchase of intangible assets	-	(1,250)	(400)
Loan to RMI	-	-	(15,000)
Cash paid for acquisitions, net	(74,679)	-	(107,448)
Cash paid for acquisition-related earn-out obligations	-	(11,528)	(15,501)
Net cash used in investing activities	(30,009)	(185,245)	(128,019)
Cash flows from financing activities:			
Proceeds from line of credit and term notes	-	-	48,000
Payment of principal of line of credit and term notes	-	-	(48,000)

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Payments of debt issuance costs	-	-	(1,158)
Payments of software license and other obligations	(6,227)	(6,992)	(2,338)
Proceeds from issuance of common stock	34,018	31,681	17,183
Proceeds from issuance of common stock in connection with stock offerings	-	117,813	29,660
Payments of stock issuance costs	-	(6,145)	-
Tax payments related to vested awards	(11,750)	(3,687)	(4,281)
Excess tax benefit from stock-based awards	-	207	1,506
Net cash provided by financing activities	16,041	132,877	40,572
Net increase (decrease) in cash and cash equivalents	79,504	56,245	(39,196)
Cash and cash equivalents at beginning of year	100,523	44,278	83,474
Cash and cash equivalents at end of year	\$ 180,027	\$ 100,523	\$ 44,278
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$91	\$225	\$916
Cash paid for income taxes	\$604	\$1,883	\$391
Supplemental disclosures of non-cash investing and financing activities:			
Acquisition of property and equipment under capital leases and software licenses obligations	\$8,032	\$8,047	\$7,189
Issuance of common stock in connection with the RMI acquisition/earnout payment	\$-	\$71,883	\$188,527
Stock settled earn-out liability recognized as an increase to goodwill	\$-	\$-	\$9,250
Cash settled earn-out obligation recognized as an increase to goodwill	\$-	\$-	\$429

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

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Company

NetLogic Microsystems, Inc. is a leading fabless semiconductor company that designs, develops and sells proprietary high-performance processors and high speed integrated circuits that are used to enhance the performance, functionality and energy efficiency of advanced mobile wireless infrastructure, data center, enterprise, metro Ethernet, edge and core infrastructure networks. Our product portfolio includes high-performance multi-core communications processors, knowledge-based processors, high-speed 10/40/100 Gigabit Ethernet physical layer devices, network search engines, and ultra low-power embedded processors. These products are designed into high-performance systems such as switches, routers, wireless base stations, access aggregation, radio network controllers, security appliances, networked storage appliances, service gateways and connected media devices offered by leading original equipment manufacturers (“OEMs”).

Pending Acquisition by Broadcom Corporation

On September 11, 2011, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Broadcom Corporation (“Broadcom”), and I&N Acquisition Corp., a wholly owned subsidiary of Broadcom (“Merger Sub”). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger Sub will merge with and into the Company (the “Merger”), with the Company as the surviving corporation. As a result of the Merger, the Company will become a subsidiary of Broadcom.

Under the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of the Company’s common stock (other than (i) shares held by Broadcom, the Company or any of their respective wholly owned subsidiaries and (ii) shares held by the Company’s stockholders who perfect their appraisal rights) will be converted into the right to receive \$50.00 in cash, without interest and less any applicable withholding taxes.

The Merger Agreement further provides for, subject to certain limited exceptions, (i) the assumption of all in-the-money options to acquire the Company’s common stock outstanding immediately prior to the effective time of the Merger held by the Company’s employees, (ii) the cash-out of all in-the-money stock options held by non-employees, (iii) the conversion of all unvested restricted stock units held by the Company’s employees into Broadcom restricted stock units and (iv) the cash-out of all unvested restricted stock units held by persons other than the Company’s employees.

The Company has made customary representations, warranties and covenants in the Merger 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, covenants to provide required information to regulatory agencies and to provide other requested cooperation and assistance in connection with the Merger Agreement and the transactions contemplated by it. Broadcom also has made customary representations, warranties and covenants in the Merger Agreement.

Consummation of the Merger remains subject to the satisfaction of customary closing conditions, other than conditions requiring stockholder approval of the Merger and required regulatory approvals and clearances, all of which have been satisfied as of the date of this report.

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2011

Consummation of the Merger is also subject to other customary conditions, including (i) the absence of any law or order prohibiting or restraining the Merger, (ii) no effect that has or would reasonably be expected to have a material adverse effect on the Company and its subsidiaries, (iii) subject to certain exceptions, the accuracy of Broadcom's and the Company's respective representations and warranties in the Merger Agreement, (iv) performance by Broadcom and the Company of their respective obligations in the Merger Agreement and (v) the absence of certain pending or threatened governmental litigation with respect to the transactions contemplated by the Merger Agreement.

The Merger Agreement ma