Avago Technologies LTD
Form 10-Q
June 10, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(MARK ONE)

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

For the quarterly period ended May 4, 2014

OR

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

For the transition period from to

Commission File Number: 001-34428

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

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

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

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

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

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

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

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

As of May 30, 2014 there were 251,717,174 shares of our ordinary shares, no par value per share, outstanding.

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AVAGO TECHNOLOGIES LIMITED
Quarterly Report on Form 10-Q
For the Quarterly Period Ended May 4, 2014

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements — Unaudited

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

	May 4, 2014	November 3, 2013 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$1,278	$985
Trade accounts receivable, net	319	418
Inventory	301	285
Other current assets	136	130
Total current assets	2,034	1,818
Property, plant and equipment, net	731	661
Goodwill	392	391
Intangible assets, net	441	492
Other long-term assets	73	53
Total assets	$3,671	$3,415
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$274	$278
Employee compensation and benefits	86	98
Other current liabilities	56	47
Total current liabilities	416	423
Long-term liabilities:		
Other long-term liabilities	101	106
Total liabilities	517	529
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Ordinary shares, no par value; 251,328,239 shares and 249,100,178 shares issued and outstanding on May 4, 2014 and November 3, 2013, respectively	1,694	1,587
Retained earnings	1,467	1,305
Accumulated other comprehensive loss	(7)	(6)
Total shareholders' equity	3,154	2,886
Total liabilities and shareholders' equity	$3,671	$3,415

(1) Amounts as of November 3, 2013 have been derived from audited consolidated financial statements as of that date.

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

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 4, 2014	May 5, 2013	May 4, 2014	May 5, 2013
Net revenue	$701	$562	$1,410	$1,138
Cost of products sold:				
Cost of products sold	326	276	673	562
Amortization of intangible assets	18	14	36	28
Restructuring charges	—	—	5	—
Total cost of products sold	344	290	714	590
Gross margin	357	272	696	548
Research and development	114	95	221	188
Selling, general and administrative	67	52	141	105
Amortization of intangible assets	8	6	15	11
Restructuring charges	8	1	20	2
Total operating expenses	197	154	397	306
Income from operations	160	118	299	242
Interest expense	(1)	(1)	(1)	(1)
Other income, net	—	1	—	3
Income before income taxes	159	118	298	244
Provision for income taxes	1	5	6	6
Net income	$158	$113	$292	$238
Net income per share:				
Basic	$0.63	$0.46	$1.17	$0.97
Diluted	$0.61	$0.45	$1.14	$0.95
Weighted average shares:				
Basic	251	246	250	246
Diluted	258	251	256	251
Cash dividends declared and paid per share	$0.27	$0.19	$0.52	$0.36

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

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 4, 2014	May 5, 2013	May 4, 2014	May 5, 2013
Net income	$158	$113	$292	$238
Other comprehensive income (loss), net of tax:				
Unrealized gains of post-retirement plan and defined benefit pension plans, net of tax	—	—	—	2
Impact of post-retirement benefit plan curtailment and settlement gain	—	—	(2)	—
Impact of post-retirement benefit plan amendment	—	—	1	—
Change in net unrealized gain on available-for-sale investments	—	2	—	2
Other comprehensive income (loss)	—	2	(1)	4
Total comprehensive income	$158	$115	$291	$242

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

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

	Two Fiscal Quarters Ended	
	May 4, 2014	May 5, 2013 (1)
Cash flows from operating activities:		
Net income	$292	$238
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	118	83
Share-based compensation	54	35
Loss on disposal of property, plant and equipment	—	1
Tax benefits from share-based compensation	12	—
Excess tax benefits from share-based compensation	(11)	—
Gain from post-retirement medical plan curtailment and settlement	(3)	—
Unrealized gain on trading securities	—	(1)
Changes in assets and liabilities, net of acquisitions:		
Trade accounts receivable, net	99	70
Inventory	(16)	(34)
Accounts payable	(16)	2
Employee compensation and benefits	(12)	(2)
Other current assets and current liabilities	(13)	(21)
Other long-term assets and long-term liabilities	(24)	2
Net cash provided by operating activities	480	373
Cash flows from investing activities:		
Purchases of property, plant and equipment	(125)	(114)
Proceeds from the sale of investment	14	—
Purchases of investments	—	(9)
Acquisition, net of cash acquired	—	(37)
Net cash used in investing activities	(111)	(160)
Cash flows from financing activities:		
Proceeds from government grants	2	8
Payments on capital lease obligations	—	(1)
Issuance of ordinary shares, net of issuance costs	53	28
Repurchases of ordinary shares	(12)	(24)
Excess tax benefits from share-based compensation	11	—
Dividend payments to shareholders	(130)	(89)
Net cash used in financing activities	(76)	(78)
Net increase in cash and cash equivalents	293	135
Cash and cash equivalents at the beginning of period	985	1,084
Cash and cash equivalents at end of period	$1,278	$1,219

(1) The statement of cash flows data for the two quarters ended May 5, 2013 reflects a reclassification of $3 million of government grant reimbursements related to fixed assets from cash flows provided by operating activities to cash flows used in financing activities. As a result, net cash provided by operating activities and net cash used in financing activities for this period each decreased by a corresponding amount.

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

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AVAGO TECHNOLOGIES LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
1. Overview, Basis of Presentation and Significant Accounting Policies
Overview
Avago Technologies Limited, or the “Company”, was organized under the laws of the Republic of Singapore in August 2005. We are a designer, developer and global supplier of semiconductor devices with a focus on III-V based products. Through the fiscal quarter ended May 4, 2014, we offered products in three primary target markets: wireless communications, wired infrastructure and industrial & other. Applications for our products in these target markets include cellular phones, consumer appliances, data networking and telecommunications equipment, enterprise storage and servers, factory automation and display. References herein to "the Company", "we", "our", "us" and "Avago" are to Avago Technologies Limited and its consolidated subsidiaries, unless otherwise specified or the context otherwise requires.
Basis of Presentation
Fiscal Periods. We operate on a 52- or 53-week fiscal year ending on the Sunday closest to October 31. Our fiscal year ending November 2, 2014, or fiscal year 2014, is a 52-week fiscal year. The first quarter of our fiscal year 2014 ended on February 2, 2014, the second quarter ended on May 4, 2014, the third quarter will end on August 3, 2014 and the fourth quarter will end on November 2, 2014. Our fiscal year ended November 3, 2013, or fiscal year 2013, was a 53-week fiscal year, with our first fiscal quarter containing 14 weeks.
Information. The unaudited condensed consolidated financial statements include the accounts of Avago Technologies Limited and all of its wholly-owned subsidiaries, and are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Intercompany transactions and balances have been eliminated in consolidation.
During fiscal year 2013, we completed our acquisition of CyOptics, Inc., or CyOptics. The unaudited condensed consolidated financial statements include the results of operations of CyOptics commencing as of the closing date of the acquisition. (See Note 3. "Acquisitions and Investment")
Interim information presented in the unaudited condensed consolidated financial statements has been prepared by management and, in the opinion of management, includes all adjustments of a normal recurring nature that are necessary for the fair statement of the financial position, results of operations, comprehensive income and cash flows for the periods shown, and is in accordance with GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the fiscal year ended November 3, 2013, or fiscal year 2013, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on December 20, 2013.
The operating results for the fiscal quarter and two fiscal quarters ended May 4, 2014 are not necessarily indicative of the results that may be expected for fiscal year 2014, or for any other future period. The balance sheet data as of November 3, 2013 presented are derived from the audited consolidated financial statements as of that date.
Significant Accounting Policies
Use of estimates. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods.
Concentrations of credit risk and significant customers. Our cash, cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents may be redeemable upon demand and are maintained with several financial institutions that management believes are of high credit quality and therefore bear minimal credit risk. We seek to mitigate our credit risks by spreading such risks across multiple counterparties and monitoring the risk profile of these counterparties. Our accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. We mitigate collection risks from our customers by performing regular credit evaluations of our customers' financial conditions, and require collateral, such as letters of credit and

bank guarantees, in certain circumstances.

We sell our products through our direct sales force, distributors and manufacturers' representatives. Two direct customers accounted for 19% and 10%, respectively, of our net accounts receivable balance at May 4, 2014. One direct customer accounted for 26% of our net accounts receivable balance at November 3, 2013. For the fiscal quarter ended May 4, 2014, two direct customers represented 14% and 13% of our net revenue, respectively. For the fiscal quarter ended May 5, 2013, two direct customers represented 16% and 10% of our net revenue, respectively. For the two fiscal quarters ended May 4, 2014, two direct customers represented 20% and 10% of our net revenue, respectively. For the two fiscal quarters ended May 5, 2013, one direct customer represented 18% of our net revenue.

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Warranty. We accrue for the estimated costs of product warranties at the time revenue is recognized. Product warranty costs are estimated based upon our historical experience and specific identification of product requirements, which may fluctuate based on product mix. Additionally, we accrue for warranty costs associated with occasional or unanticipated product quality issues if a loss is probable and can be reasonably estimated. Warranty costs were not material for either of the fiscal quarter or the two quarters ended May 4, 2014 or May 5, 2013.

Net income per share. Basic net income per share is computed using the weighted-average number of ordinary shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of ordinary shares and potentially dilutive share equivalents outstanding during the period. Diluted shares outstanding includes the dilutive effect of in-the-money options (including market-based share options), restricted share units, or RSUs, and employee share purchase rights under the Avago Technologies Limited Employee Share Purchase Plan, or ESPP. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period, using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising share options and to purchase shares under the ESPP, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in an ordinary shares account when equity awards become deductible for income tax purposes are collectively assumed to be used to repurchase ordinary shares.

Diluted net income per share for the fiscal quarter and two fiscal quarters ended May 4, 2014 and the fiscal quarter and two fiscal quarters ended May 5, 2013 excluded the potentially dilutive effect of weighted-average outstanding equity awards (options, RSUs and ESPP rights) to acquire 1 million, 0 million, 2 million and 2 million ordinary shares, respectively, as their effect was antidilutive.

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 4, 2014	May 5, 2013	May 4, 2014	May 5, 2013
Net income (Numerator):				
Net income	$158	$113	$292	$238
Shares (Denominator):				
Basic weighted-average ordinary shares outstanding	251	246	250	246
Add incremental shares for:				
Dilutive effect of share options, RSUs and ESPP rights	7	5	6	5
Shares used in diluted computation	258	251	256	251
Net income per share:				
Basic	$0.63	$0.46	$1.17	$0.97
Diluted	$0.61	$0.45	$1.14	$0.95

Supplemental cash flow disclosures. At May 4, 2014 and November 3, 2013, we had $43 million and $31 million, respectively, of unpaid purchases of property, plant, and equipment included in accounts payable and other current liabilities. Amounts reported as unpaid purchases will be recorded as cash outflows from investing activities for purchases of property, plant, and equipment in the unaudited condensed consolidated statement of cash flows for the period in which they are paid.

Recently Adopted Accounting Guidance

In the first quarter of fiscal year 2014, we adopted guidance issued by the Financial Accounting Standards Board, or FASB, relating to reporting on reclassifications out of accumulated other comprehensive income (loss). This guidance seeks to improve the reporting of such reclassifications by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income (loss) on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this guidance supersede the presentation requirements for reclassifications out of accumulated other comprehensive income (loss) in previously issued guidance. The adoption of this guidance affected the presentation of comprehensive income, but did not have any impact our financial condition or results of operations.

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Recent Accounting Guidance Not Yet Adopted

In May 2014, the FASB and International Accounting Standards Board issued their converged standard on revenue recognition. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. This guidance will be effective for the first quarter of our fiscal year 2018. The Company is currently evaluating the impact that this guidance will have on its financial condition and results of operations.

In April 2014, the FASB issued authoritative guidance that raises the threshold for a disposal transaction to qualify as a discontinued operation and requires additional disclosures about discontinued operations and disposals of individually significant components that do not qualify as discontinued operations. This guidance will be effective prospectively for the first quarter of our fiscal year 2016. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued. The Company is evaluating the impact, if any, that this guidance will have on its financial condition or results of operations.

In July 2013, the FASB issued an amendment to the accounting guidance related to the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The guidance requires an unrecognized tax benefit to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss or a tax credit carryforward exists and certain criteria are met. This guidance will be effective for the first quarter of our fiscal year 2015. The adoption of this guidance will affect the presentation of our unrecognized tax benefits but will not impact the Company's financial condition or results of operations.

2. Inventory

Inventory consists of the following (in millions):

	May 4, 2014	November 3, 2013
Finished goods	$60	$53
Work-in-process	156	154
Raw materials	85	78
Total inventory	$301	$285

3. Acquisitions and Investment

LSI Corporation

On May 6, 2014, subsequent to the end of our second fiscal quarter, which ended on May 4, 2014, we completed our previously announced acquisition of all of the issued and outstanding shares of common stock of LSI Corporation, or LSI, a U.S. publicly traded company that designs semiconductors that accelerate storage and networking in data centers, mobile networks and client computing, for an aggregate acquisition consideration of approximately $6.5 billion in cash, or $11.15 in cash per share of LSI common stock. (See Notes 6. "Borrowings" and 15. "Subsequent Events" for further details.)

CyOptics

On June 28, 2013, we completed our acquisition of all of the outstanding shares of capital stock of CyOptics, a U.S.-based company that manufactures and sells Indium Phosphide, or InP, optical chip and component technologies for the data communications and telecommunications markets. CyOptics has front-end manufacturing operations in the U.S. and back-end manufacturing operations in Mexico. As a result of the CyOptics acquisition, we acquired approximately 1,100 additional employees, with 745 of these employees located in Mexico.

The aggregate consideration for the acquisition was approximately $377 million of which $373 million was paid in cash, net of $3 million in cash acquired. We also agreed to pay additional deferred consideration to the previous shareholders of CyOptics in the amount of $4 million one year subsequent to the acquisition date, which was recorded in other current liabilities.

An additional approximately $27 million is payable to key employees of CyOptics as part of a retention bonus plan. This amount was paid into escrow and will be paid to those employees over a three-year period subsequent to the acquisition date and is being recognized as compensation expense in operating results over the same period. For eligible CyOptics employees

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whose employment is involuntarily terminated by the Company, their retention bonus payments are accelerated and due in full upon such termination in accordance with the provisions of the plan. During the fiscal quarter and two fiscal quarters ended May 4, 2014, we recorded a compensation expenses of $1 million and $10 million, respectively, due to the departures of certain plan participants.

We have preliminarily estimated the fair value of the acquired assets and liabilities for CyOptics. We allocated the purchase price to tangible assets, liabilities and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair values was recorded as goodwill. The fair value assigned to identifiable intangible assets acquired was based on estimates and assumptions made by management at the time of acquisition. As additional information becomes available, such as finalization of negotiations of working capital adjustments and tax related matters, we have revised and may continue to revise our preliminary purchase price allocation.

Our allocation of the total purchase price for CyOptics and the purchased intangible assets as of May 4, 2014 is as follows (in millions):

	Fair Value
Trade accounts receivable	$51
Inventory	35
Other current assets	2
Property, plant and equipment	44
Goodwill	190
Intangible assets	141
Total assets acquired	463
Accounts payable	(25)
Employee compensation and benefits	(5)
Other current liabilities	(2)
Long-term deferred tax liabilities (included in Other long-term liabilities)	(54)
Total liabilities assumed	(86)
Purchase price allocation	$377

There were no significant contingencies assumed as part of the acquisition. As of May 4, 2014, we have a $12 million indemnification receivable in other long-term assets for tax positions related to CyOptics' value-added tax and income tax payables existing prior to the acquisition.

	Fair Value (in millions)	Estimated Useful Lives (in years)
Purchased intangible assets		
Purchased technology - base product	$98	8
Purchased technology - packaging	3	5
Customer relationships	32	7
Other - customer backlog	4	1
Total identified intangible finite lived assets	137	
In process research and development indefinite lived assets	4	
Total identified intangible assets	$141	

Purchased Intangible Assets. Developed technology represents base product technology and packaging technology. We valued the base product technology that generates cash flows from sales of the existing products using the income approach, specifically the multi-period excess earnings method which calculates the value based on the risk-adjusted present value of the cash flows specific to the products, allowing for a reasonable return. The useful life of 8 years was determined based on the technology cycle related to the base product technology as well as the life of current legacy products.

Packaging technology is valued utilizing the relief-from-royalty method, a form of the income approach. The relief-from-royalty method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be payable as royalties or license fees on revenues earned through the use of the asset. The royalty rate is based on an analysis of empirical, market-derived royalty rate for guideline intangible assets.

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Customer relationships represent the fair value of future projected revenue that will be derived from sales of products to existing customers of CyOptics. Customer relationships were valued using the with-and-without-method, a form of the income approach. In this method, fair value is measured by the lost profits associated with the period of time necessary to reacquire the customers. The method involves a comparison of the cash flows assuming the customer relationships were in place versus as if the customer relationships were to be created "from scratch." There are additional considerations related to the build-in time for certain product lines and the qualification periods included in the valuation model. This method also assumes that all other assets, know-how and technology were easily available in both scenarios.

The fair value of in-process research and development, or IPR&D, from the CyOptics acquisition was determined using the multi-period excess earnings method, a form of the income approach. Under the income approach, the expected future cash flows from each project under development are estimated and discounted to their net present values at an appropriate risk-adjusted rate of return.

We believe the amount recorded as developed technology, IPR&D and customer relationships, represent the fair value of and approximate the amount a market participant would pay for these projects as of the acquisition date.

The purchased intangible assets are being amortized over their estimated useful lives of 1 year to 8 years. (See Note 4. Goodwill and Intangible Assets)

Unaudited Pro Forma Information. The following table presents certain unaudited pro forma financial information for each of the fiscal years ended November 3, 2013 and October 28, 2012 as if CyOptics had been acquired as of the beginning of the fiscal year prior to the acquisition date. The unaudited estimated pro forma information combines the historical results of CyOptics with our consolidated historical results and includes certain fair value adjustments reflecting the estimated impact of amortization of purchased intangible assets and depreciation of acquired property, plant and equipment for the respective periods. The pro forma data are for informational purposes only and are not necessarily indicative of the consolidated results of operations of the combined business had the acquisition actually occurred at the beginning of our fiscal year 2012 or of the results of future operations of the combined business. Consequently, actual results will differ from the unaudited pro forma information presented below (in millions, except for per share amounts):

	Fiscal Year Ended	
	November 3, 2013	October 28, 2012
Pro forma net revenue	$2,663	$2,578
Pro forma net income	$547	$551
Pro forma net income per share-basic	$2.21	$2.25
Pro forma net income per share-diluted	$2.17	$2.20

Investment

In fiscal year 2013, we made a minority equity investment of $9 million in the common stock of a U.S. publicly traded company, which we accounted for as a trading security. In the fiscal quarter ended May 4, 2014, we completely exited our investment in the shares of this company. As a result, for the quarter and two fiscal quarters ended May 4, 2014, we realized an immaterial loss from the sale of the shares which was recorded in other income, net in the unaudited condensed consolidated statements of operations.

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4. Goodwill and Intangible Assets

Goodwill

There was no material change in the goodwill balance for the period ended May 4, 2014.

Intangible Assets

Purchased intangibles consist of the following (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
As of May 4, 2014:			
Purchased technology	$843	$(498)	$345
Customer and distributor relationships	289	(199)	90
Other	8	(6)	2
Intangible assets subject to amortization	1,140	(703)	437
In-process research and development	4	—	4
Total	$1,144	$(703)	$441
As of November 3, 2013:			
Purchased technology	$843	$(462)	$381
Customer and distributor relationships	289	(186)	103
Other	8	(4)	4
Intangible assets subject to amortization	1,140	(652)	488
In-process research and development	4	—	4
Total	$1,144	$(652)	$492

The following table presents the amortization expense of purchased intangible assets (in millions):

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 4, 2014	May 5, 2013	May 4, 2014	May 5, 2013
Cost of products sold	$18	$14	$36	$28
Operating expenses	8	6	15	11
Total amortization expense	$26	$20	$51	$39

Based on the amount of intangible assets subject to amortization at May 4, 2014, the expected amortization expense for each of the next five fiscal years and thereafter is as follows (in millions):

Fiscal Year	Amount
2014 (remainder)	$49
2015	95
2016	78
2017	68
2018	33
2019	29
Thereafter	85
	$437

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The weighted-average amortization periods remaining by intangible asset category at May 4, 2014 were as follows (in years):

Amortizable intangible assets:	
Purchased technology	7
Customer and distributor relationships	6
Other	13

5. Retirement Plans and Post-Retirement Benefits

An amendment was made to our U.S. post-retirement medical benefit plan with an effective date of January 1, 2014. This plan was transferred to us from Agilent Technologies, Inc., or Agilent, as part of the Semiconductor Products Group, or SPG, acquisition on December 1, 2005. The amendment affected active, eligible employees and had no impact on existing retirees. As a result of the amendment, employees who were previously eligible for the medical benefit spending account of $40,000 upon retirement received a cash settlement based on age and years of service and have ceased to be eligible for post-retirement medical benefits under the program. During the first two quarters of fiscal year 2014, we paid an aggregate of $6 million in cash into these employees' 401(k) accounts. Employees who were previously eligible for the medical benefit spending account of $55,000 upon retirement have had the period during which they, as retirees, may use the spending account to pay premiums paid for medical coverage extended from age 65 to 75. Employees who were previously eligible for the traditional retiree medical plan upon retirement have ceased to be eligible to participate in such a plan and will, instead, only be eligible for the extended $55,000 retiree medical account program described above. As a result of the above plan amendment, a curtailment gain of $1 million and a settlement gain of $2 million were recorded in the unaudited condensed consolidated financial statements for the fiscal quarter ended February 2, 2014. As of May 4, 2014, the U.S. post-retirement medical benefit plan's remaining liability balance was $14 million, which is primarily included in other long-term liabilities in our unaudited condensed consolidated balance sheet.

During the fiscal quarter ended May 4, 2014, a plan amendment, effective March 1, 2014 was made to the non-U.S. defined benefit plan for Korea. This amendment resulted in a cash settlement of $7 million being paid into the new defined contribution plan, of which $2 million was paid from the plan assets during the fiscal quarter ended May 4, 2014. The plan amendment eliminated the plan's $5 million benefit obligation. The settlement impact recorded in results from operations was immaterial.

6. Borrowings

Senior Credit Facilities

As of May 4, 2014, we had an unsecured, revolving credit facility, or the 2013 revolving credit facility, in the amount of $575 million, which included borrowing capacity available for letters of credit. As of May 4, 2014, we had no borrowings outstanding under this revolving credit facility, and we were in compliance with the covenants under the related credit agreement, or the 2013 credit agreement. The 2013 credit agreement was terminated in connection, and simultaneously with the completion of our acquisition of LSI, on May 6, 2014. Subsequent to our second fiscal quarter, which ended on May 4, 2014, on May 6, 2014, in connection with the completion of our acquisition of LSI, we entered into a senior collateralized credit agreement, or the 2014 credit agreement, with a syndicate of banks, which provides for a term loan facility in the aggregate principal amount of $4.6 billion (all of which was drawn and used to fund our acquisition of LSI) and a revolving credit facility that permits certain of our subsidiaries to borrow loans from time to time in an aggregate principal amount of up to $500 million for general corporate purposes. See Note 15. "Subsequent Events" for additional details.

Convertible Senior Notes

On May 6, 2014, also in connection with the completion of our acquisition of LSI, we completed our previously announced private placement of $1 billion in aggregate principal amount of 2.0% Convertible Senior Notes due 2021, or the Notes, to investment funds affiliated with Silver Lake Partners, all of the proceeds of which were used to fund the LSI acquisition. See Note 11. "Related Party Transactions" and Note 15. "Subsequent Events" for additional details.

Debt Issuance Costs

Unamortized debt issuance costs associated with our 2013 revolving credit facility were $2 million at May 4, 2014. These unamortized debt issuance costs are included in other current assets and other long-term assets on the unaudited condensed consolidated balance sheets. Amortized debt issuance costs associated with our 2013 revolving credit facility are classified as interest expense in the unaudited condensed consolidated statements of operations. Prepaid debt issuance costs associated with our 2014 credit agreement were $5 million at May 4, 2014.

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7. Fair Value

Fair value is defined as the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level hierarchy is applied to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under the guidance for fair value measurements are described below:

Level 1—Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Our Level 1 assets include bank acceptances, and investment funds (i.e., deferred compensation plan assets). We measure investment funds at quoted market prices as they are traded in an active market with sufficient volume and frequency of transactions.

Level 2—Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3—Level 3 inputs are unobservable inputs for the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date. Level 3 assets and liabilities include cost method investments, goodwill, amortizable intangible assets, and property, plant and equipment, which are measured at fair value using a discounted cash flow approach when they are impaired. Quantitative information for Level 3 assets and liabilities reviewed at each reporting period includes indicators of significant deterioration in the earnings performance, credit rating, asset quality, business prospects of the investee, and financial indicators of the investee's ability to continue as a going concern.

We did not have any Level 3 asset or liability activities during the fiscal quarter and the two fiscal quarters ended May 4, 2014.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below sets forth by level our financial assets and liabilities that were accounted for at fair value as of May 4, 2014. The table does not include cash on hand and also does not include assets that are measured at historical cost or any basis other than fair value (in millions).

	As of May 4, 2014			
	Portion of Carrying Value Measured at Fair Value	Fair Value Measurement Using Quoted Prices In Active Market For Identical Assets (Level 1)	Fair Value Measurement Using Significant Other Inputs (Level 2)	Fair Value Measurement Using Unobservable Inputs (Level 3)
Assets:				
Investment funds — deferred compensation plan assets (1)	$12	$12	$ —	$ —
Bank acceptances (1)	1	1	—	—
Total assets measured at fair value	$13	$13	$ —	$ —
Liabilities:				
Deferred compensation plan liabilities (2)	$12	$—	$ 12	$ —

(1) Included in other current assets in our unaudited condensed consolidated balance sheet

(2) Included in other current liabilities in our unaudited condensed consolidated balance sheet

During the fiscal quarter and two fiscal quarters ended May 4, 2014, there were no material transfers between Level 1, Level 2 or Level 3 fair value instruments.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

There were no non-financial assets or liabilities measured at fair value as of May 4, 2014.

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Fair Value of Other Financial Instruments

The fair values of cash equivalents, trade accounts receivable, accounts payable, other current assets, employee compensation and benefits and other current liabilities, to the extent the underlying liability will be settled in cash, approximate carrying values because of the short-term nature of these instruments.

8. Shareholders' Equity

Share Repurchase Program

Under the 2013 share repurchase program, the Company repurchased 0.3 million shares for an aggregate purchase price of $12 million in cash at a weighted-average purchase price per share of $43.50 during the two fiscal quarters ended May 4, 2014. There were no shares repurchased during the fiscal quarter ended May 4, 2014. The 2013 share repurchase program expired on April 8, 2014. At the Company's 2014 annual general meeting of shareholders on April 9, 2014, shareholders approved the Company's 2014 share purchase mandate pursuant to which the Company is authorized, upon the approval of the Company's board of directors, or the Board, to repurchase up to approximately 25 million of its ordinary shares in open market transactions or pursuant to equal access schemes, up to the date on which the Company's 2015 annual general meeting of shareholders is held or required by law to be held, referred to as the 2014 share purchase mandate. As of the date of this Quarterly Report on Form 10-Q, the Board had not approved any repurchases of the Company's ordinary shares pursuant to the 2014 share purchase mandate.

Dividends

We paid a cash dividend of $0.27 and $0.19 per ordinary share of the Company, or $68 million and $47 million in total, during the fiscal quarters ended May 4, 2014 and May 5, 2013, respectively. We paid aggregate cash dividends of $130 million and $89 million during the two fiscal quarters ended May 4, 2014 and May 5, 2013, respectively.

Share-Based Compensation Expense

The following table summarizes share-based compensation expense related to share-based awards granted to employees, directors, and non-employees for the fiscal quarter and two fiscal quarters ended May 4, 2014 and May 5, 2013 (in millions):

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 4, 2014	May 5, 2013	May 4, 2014	May 5, 2013
Cost of products sold	$3	$2	$6	$4
Research and development	10	7	18	14
Selling, general and administrative	17	8	30	17
Total share-based compensation expense	$30	$17	$54	$35

The fair values of our time-based options and ESPP rights were estimated using the Black-Scholes option pricing model. Certain stock options granted in the fiscal quarter and two fiscal quarters ended May 4, 2014 and May 5, 2013, respectively, included both service and market conditions. The fair value of those market-based stock options was estimated using Monte Carlo simulation techniques.

The weighted-average assumptions utilized for our time-based options, ESPP rights and share price performance options, also referred to as market-based options granted during the fiscal quarter and two fiscal quarters ended May 4, 2014 and May 5, 2013 were as follows:

	Time-Based Options							
	Fiscal Quarter Ended				Two Fiscal Quarters Ended			
	May 4, 2014		May 5, 2013		May 4, 2014		May 5, 2013	
Risk-free interest rate	1.3	%	0.9	%	1.3	%	0.9	%
Dividend yield	1.7	%	1.9	%	1.8	%	1.9	%
Volatility	35.0	%	48.0	%	35.0	%	49.0	%
Expected term (in years)	4.3		5		4.2		5	

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	ESPP Rights			
	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 4, 2014	May 5, 2013	May 4, 2014	May 5, 2013
Risk-free interest rate	0.1 %	0.1 %	0.1 %	0.1 %
Dividend yield	1.7 %	2.1 %	2.0 %	2.0 %
Volatility	31.0 %	46.0 %	34.0 %	45.0 %
Expected term (in years)	0.5	0.5	0.5	0.5

	Market-Based Options			
	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 4, 2014	May 5, 2013	May 4, 2014	May 5, 2013
Risk-free interest rate	2.3 %	1.4 %	2.3 %	1.4 %
Dividend yield	1.7 %	1.9 %	1.8 %	1.9 %
Volatility	45.0 %	50.0 %	45.0 %	50.0 %
Expected term (in years)	7	7	7	7

The dividend yields for the fiscal quarters and the two fiscal quarters ended May 4, 2014 and May 5, 2013 are based on the dividend yield as of the respective award grant dates. For the two fiscal quarters ended May 4, 2014, expected volatility for time-based and market-based options is based on our own historical share price volatility and or combining historical volatility of guideline publicly traded companies and our own historical share price volatility over the period commensurate with the expected life of the awards and the implied volatility from our own traded shares with a term of 180 days measured at a specific date. Prior to fiscal year 2014, expected volatility was based on the combination of historical volatility of guideline publicly-traded companies and our own historical share price volatility over the period commensurate with the expected life of the awards and the implied volatility from traded options in guideline publicly-traded companies and our own shares with a term of 720 days or greater measured over the last three months.

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

For the fiscal quarter and two fiscal quarters ended May 4, 2014, the expected term for time-based options was based on a weighted-average combining the average life of options that have already been exercised or cancelled with the expected life of all unexercised options. The expected life for unexercised options is calculated assuming that the options will be exercised at the midpoint of the vesting date (if unvested) or the valuation date (if vested) and the full contractual term. Our computations of expected term for time-based options prior to fiscal year 2014 were based on data, such as the data of peer companies and company-specific attributes, that we believe could affect employees' exercise behavior.

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

Based on the above assumptions, the weighted-average fair values of the time-based options granted under the Company's equity incentive award plan for the fiscal quarters ended May 4, 2014 and May 5, 2013 were $16.04 and $12.53, respectively and $15.56 and $12.65 for the two fiscal quarters ended May 4, 2014 and May 5, 2013, respectively.

The weighted-average fair values of the market-based options granted under the Company's equity incentive award plan for the fiscal quarter ended May 4, 2014 and May 5, 2013 were $22.33 and $13.34, respectively and $20.79 and $13.34 for the two fiscal quarters ended May 4, 2014 and May 5, 2013, respectively.

The weighted-average fair values of the rights to purchase shares in the ESPP for the fiscal quarters ended May 4, 2014 and May 5, 2013 were $14.61 and $11.73, respectively and $13.44 and $11.63 for the two fiscal quarters ended May 4, 2014 and May 5, 2013, respectively.

The weighted-average fair values of RSUs granted in the fiscal quarters ended May 4, 2014 and May 5, 2013 were \$62.06 and \$35.46, respectively and \$59.03 and \$35.34 for the two fiscal quarters ended May 4, 2014 and May 5, 2013, respectively.

The total compensation expense of time and market-based options granted but not yet vested as of May 4, 2014 was \$230 million, which is expected to be recognized over the remaining weighted-average service period of 3 years.

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The total grant date fair values of time and market-based options vested during the fiscal quarters ended May 4, 2014 and May 5, 2013 were $32 million and $19 million, respectively. The total grant-date fair values of options that vested during the two fiscal quarters ended May 4, 2014 and May 5, 2013 were $42 million and $27 million, respectively.
Total unrecognized compensation cost related to the ESPP rights as of May 4, 2014 was $1 million and is expected to be recognized over the remaining portion of the current offering period under the ESPP, which ends on September 14, 2014.
Total compensation cost related to unvested RSUs as of May 4, 2014 was $62 million, which is expected to be recognized over the remaining weighted-average service period of 3 years. The total grant-date fair values of RSUs that vested during the fiscal quarters ended May 4, 2014 and May 5, 2013 were $12 million and $1 million, respectively. The total grant-date fair values of RSUs that vested during the two fiscal quarters ended May 4, 2014 and May 5, 2013 were $13 million and $1 million, respectively.
Equity Incentive Award Plans
A summary of option award activity related to our equity incentive plans is as follows (in millions, except years and per share amounts):

		Option Awards Outstanding			
	Shares Available for Grant	Number Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance as of November 3, 2013	10	22	$29.81		
Annual increase in shares available for issuance, per equity incentive plan terms	6				
Granted	(7)	7	59.56		
Exercised	—	(2)	24.28		
Cancelled	—	—	36.67		
Balance as of May 4, 2014	9	27	37.82	5.65	$705
Fully vested as of May 4, 2014		8	23.70	4.82	339
Fully vested and expected to vest as of May 4, 2014		25	37.14	5.61	682

As of November 3, 2013, there were 10 million shares available for grant under the 2009 Equity Incentive Plan. Per the terms of the 2009 Equity Incentive Plan, an annual increase of 6 million shares was approved for issuance on the first day of fiscal year 2014. As of the quarter ended May 4, 2014, there were 9 million shares that remained available for grant.
The total intrinsic values of options exercised during the fiscal quarters ended May 4, 2014 and May 5, 2013 were $46 million and $17 million, respectively. The total intrinsic values of options exercised during the two fiscal quarters ended May 4, 2014 and May 5, 2013 were $69 million and $42 million, respectively.
A summary of RSU activity related to our equity incentive plans is as follows (in millions, except years and per share amounts):

	RSU Awards Outstanding		
	Number Outstanding	Weighted-Average Grant Date Fair Market Value	Weighted-Average Remaining Contractual Life (in years)
Balance as of November 3, 2013	2	$34.38	
Granted	1	59.02	
Vested	(1)	33.89	

Forfeited	—	39.04	
Balance as of May 4, 2014	2	43.05	3.16

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The following table summarizes the ranges of outstanding and exercisable option awards as of May 4, 2014 (in millions, except years and per share amounts):

	Option Awards Outstanding			Option Awards Exercisable	
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
\$0.00-\$10.00	1	4.06	\$ 8.47	1	\$ 8.49
\$10.01-\$20.00	2	4.55	13.31	2	13.33
\$20.01-\$30.00	2	6.16	21.00	1	20.86
\$30.01-\$40.00	15	5.34	35.48	4	34.19
\$40.01-\$50.00	1	6.47	45.56	—	—
\$50.01-\$60.00	1	6.69	53.57	—	—
\$60.01-\$63.18	5	6.84	62.01	—	—
Total	27	5.65	37.82	8	23.70

Employee Share Purchase Plan

0.1 million shares were issued under the ESPP during each of the fiscal quarter and two fiscal quarters ended May 4, 2014 and May 5, 2013. At May 4, 2014, 9.2 million shares remained available for issuance under the ESPP.

9. Income Taxes

For the fiscal quarter and two fiscal quarters ended May 4, 2014, we recorded an income tax provision of \$1 million and \$6 million, respectively, compared to \$5 million and \$6 million for the fiscal quarter and two fiscal quarters ended May 5, 2013, respectively. The tax expense for the fiscal quarter and two fiscal quarters ended May 4, 2014 included a benefit of \$10 million and \$14 million, respectively, from the recognition of previously unrecognized tax benefits as a result of lapses in statutes of limitations for various audit periods. The tax expense for the two fiscal quarters ended May 5, 2013 included a benefit of \$3 million from the enactment of the American Taxpayer relief Act of 2012, which was signed into law on January 2, 2013, retroactively extending the U.S. Federal Research and Development tax credit from January 1, 2012 to December 31, 2013. The remaining changes in tax provisions for all periods presented were mainly due to changes in the jurisdictional mix of income and expense.

Pursuant to Accounting Standards Codification (“ASC”) 740-10-25-3(e) (Income Taxes) and ASC 810-10-45-8 (Consolidation), during the fiscal quarter ended February 2, 2014, we recorded a deferred charge for the deferral of income tax expense on certain intercompany asset transactions that occurred in the quarter. The deferred charge of approximately \$32 million, with \$4 million included in other current assets and \$28 million included in other long-term assets on our unaudited condensed consolidated balance sheets. The deferred charge will be amortized on a straight-line basis and will be included as a component of income tax expense over the life of the underlying assets, which has been estimated to be seven years.

Unrecognized Tax Benefits

As of November 3, 2013, the amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was approximately \$35 million, including accrued interest and penalties.

We are subject to Singapore income tax examinations for the years ended November 1, 2009 and later, and in major jurisdictions outside Singapore for the years ended October 31, 2008 and later. However, we are not under Singapore income tax examination at this time. We believe it is possible that we may recognize up to \$3 million of our existing unrecognized tax benefits within the next 12 months as a result of lapses of statute of limitations for certain audit periods.

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10. Segment Information

ASC 280 “Segment Reporting,” or ASC 280, establishes standards for the way public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers. We completed the CyOptics acquisition in the third quarter of fiscal year 2013 and have fully integrated CyOptics into Avago's organization structure and business model. Therefore, we have concluded that we continue to have one reportable segment based on the following factors: sales of semiconductors represents our only material source of revenue; substantially all products offered incorporate analog functionality and are manufactured under similar manufacturing processes; we use an integrated approach in developing our products in that discrete technologies developed are frequently integrated across many of our products; and we use a common order fulfillment process and similar distribution approach for our products. Broad distributor networks are typically used to distribute our products, with large accounts being serviced by a direct sales force. The Chief Executive Officer has been identified as the Chief Operating Decision Maker, as defined by ASC 280.

11. Related Party Transactions

During the fiscal quarter and the two fiscal quarters ended May 4, 2014 and May 5, 2013, in the ordinary course of business, the Company purchased from, or sold to, several entities where one of the Company's directors also serves or served as a director or executive officer of that entity, including eSilicon Corporation (ceased to be a related party after the quarter ended May 5, 2013), KLA-Tencor Corporation, Kulicke & Soffa Industries, Inc. and Wistron Corporation (ceased to be a related party after the quarter ended August 4, 2013). Management believes that such transactions are at arm's length and on similar terms as would have been obtained from unaffiliated third parties.

The following tables provide information regarding the aggregate amounts involved in the transactions with these parties for the indicated periods (for the portion of such period that they were considered related) (in millions):

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 4, 2014	May 5, 2013	May 4, 2014	May 5, 2013
Total net revenue (1) (2)	$—	$10	$—	$16
Total costs and expenses (2)	—	* 1	—	*2

	May 4, 2014	November 3, 2013	
Total receivables	$—	$—	*
Total payables	— *	—	*

* Represent amounts less than $0.5 million.

(1) Amounts include net revenue for related party transactions with Wistron Corporation through the fiscal quarter ended May 5, 2013. Wistron Corporation ceased to be a related party after the fiscal quarter ended August 4, 2013.

(2) Amounts include net revenue, cost and expenses for related party transactions with eSilicon Corporation through the fiscal quarter ended May 5, 2013. eSilicon Corporation ceased to be a related party after the fiscal quarter May 5, 2013.

Convertible Senior Notes

On December 15, 2013, in connection with our acquisition of LSI, the Company entered into a Note Purchase Agreement with Silver Lake Partners IV, L.P, or SLP IV as the Purchaser and Deutsche Bank, A.G., Singapore Branch, as Lead Manager, referred to as the Note Purchase Agreement, in connection with the private placement of $1 billion aggregate principal amount of the Company's 2.0% Convertible Senior Notes due 2021. Silver Lake Partners IV an investment fund affiliated with Silver Lake Partners, of which Kenneth Hao, one of our directors, is a Managing Director. Mr. Hao disclaims all beneficial interest in the Notes, except to the extent of his pecuniary interest therein. We completed the private placement of the Notes on May 6, 2014, in connection with the completion of the acquisition of LSI. See Note 6. "Borrowings" for additional details.

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12. Commitments and Contingencies
Commitments
The following table sets forth changes in our commitments as of May 4, 2014 for the fiscal periods noted (in millions):

	Total	2014 (remainder)	2015	2016	2017	2018	2019	Thereafter
Purchase Commitments	$216	$216	$—	$—	$—	$—	$—	$—
Other Contractual Commitments	$50	$11	$16	$13				