Broadcom Ltd
Form 10-Q
March 10, 2016
Table of Contents

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 January 31, 2016

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: 001-37690

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

Singapore (State or Other Jurisdiction of Incorporation or Organization)	98-1254807 (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 February 26, 2016 there were 390,447,960 of our ordinary shares, no par value per share, outstanding.

BROADCOM LIMITED
Quarterly Report on Form 10-Q
For the Quarterly Period Ended January 31, 2016

TABLE OF CONTENTS

	Page
PART I — FINANCIAL INFORMATION	3
Item 1. Condensed Consolidated Financial Statements — Unaudited	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	32
PART II — OTHER INFORMATION	33
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 3. Defaults Upon Senior Securities	57
Item 4. Mine Safety Disclosures	57
Item 5. Other Information	57
Item 6. Exhibits	57
SIGNATURES	58
Exhibit Index	59

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements — Unaudited

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

	January 31, 2016	November 1, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$2,169	$1,822
Trade accounts receivable, net	1,060	1,019
Inventory	490	524
Assets held-for-sale	4	22
Other current assets	248	388
Total current assets	3,971	3,775
Property, plant and equipment, net	1,505	1,460
Goodwill	1,685	1,674
Intangible assets, net	3,089	3,277
Other long-term assets	527	406
Total assets	$10,777	$10,592
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$523	$617
Employee compensation and benefits	101	250
Current portion of long-term debt	46	46
Other current liabilities	192	206
Total current liabilities	862	1,119
Long-term liabilities:		
Long-term debt	3,892	3,903
Pension and post-retirement benefit obligations	469	475
Other long-term liabilities	433	381
Total liabilities	5,656	5,878
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Ordinary shares, no par value; 278,110,739 shares and 276,259,120 shares issued and outstanding on January 31, 2016 and November 1, 2015, respectively	2,699	2,547
Retained earnings	2,495	2,240
Accumulated other comprehensive loss	(73)	(73)
Total shareholders' equity	5,121	4,714
Total liabilities and shareholders' equity	$10,777	$10,592

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

Table of Contents

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

	Fiscal Quarter Ended	
	January 31, 2016	February 1, 2015
Net revenue	$1,771	$1,635
Cost of products sold:		
Cost of products sold	699	694
Amortization of intangible assets	130	113
Restructuring charges	1	2
Total cost of products sold	830	809
Gross margin	941	826
Research and development	267	235
Selling, general and administrative	114	117
Amortization of intangible assets	54	59
Restructuring and disposal charges	31	14
Total operating expenses	466	425
Operating income	475	401
Interest expense	(84)	(54)
Other income, net	3	4
Income from continuing operations before income taxes	394	351
Provision for income taxes	17	13
Income from continuing operations	377	338
Income from discontinued operations (including a gain on disposal of $14 for the fiscal quarter ended February 1, 2015), net of income taxes	—	13
Net income	$377	$351
Basic income per share:		
Income per share from continuing operations	$1.36	$1.33
Income per share from discontinued operations	$—	$0.05
Net income per share	$1.36	$1.38
Diluted income per share:		
Income per share from continuing operations	$1.30	$1.22
Income per share from discontinued operations	$—	$0.04
Net income per share	$1.30	$1.26
Weighted-average shares:		
Basic	277	255
Diluted	289	278
Cash dividends declared and paid per share	$0.44	$0.35

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

Table of Contents

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

	Fiscal Quarter Ended	
	January 31, 2016	February 1, 2015
Net income	$377	$351
Other comprehensive income, net of tax:		
Reclassification to net income	—	1
Other comprehensive income	—	1
Comprehensive income	$377	$352

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

Table of Contents

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

	Fiscal Quarter Ended	
	January 31, 2016	February 1, 2015
Cash flows from operating activities:		
Net income	$377	$351
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	244	226
Share-based compensation	57	49
Excess tax from share-based compensation	(23)	(20)
Non-cash restructuring and disposal charges	22	5
Gain on sale of business	—	(14)
Deferred taxes	(8)	(6)
Amortization of debt issuance costs and accretion of debt discount	4	7
Other	4	6
Changes in assets and liabilities, net of acquisitions and disposals:		
Trade accounts receivable, net	(41)	64
Inventory	34	33
Accounts payable	(68)	(78)
Employee compensation and benefits	(149)	(90)
Other current assets and current liabilities	16	(45)
Other long-term assets and long-term liabilities	5	(7)
Net cash provided by operating activities	474	481
Cash flows from investing activities:		
Purchases of property, plant and equipment	(140)	(162)
Proceeds from disposal of property, plant and equipment	—	26
Proceeds from sale of businesses	68	650
Acquisition of business	(12)	—
Purchase of investment	(1)	—
Net cash (used in) provided by investing activities	(85)	514
Cash flows from financing activities:		
Dividend payments to shareholders	(122)	(89)
Issuance of ordinary shares	72	51
Excess tax from share-based compensation	23	20
Debt repayments	(11)	(12)
Debt issuance costs	(4)	—
Net cash used in financing activities	(42)	(30)
Net change in cash and cash equivalents	347	965
Cash and cash equivalents at the beginning of period	1,822	1,604
Cash and cash equivalents at end of period	$2,169	$2,569

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

Table of Contents

BROADCOM LIMITED

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
1. Overview, Basis of Presentation and Significant Accounting Policies
Overview
Broadcom Limited, a company organized under the laws of the Republic of Singapore, is the successor to Avago Technologies Limited, or Avago. On February 1, 2016, pursuant to an Agreement and Plan of Merger dated as of May 28, 2015, or the Broadcom Agreement, Broadcom Limited, Avago, Broadcom Corporation, or BRCM, and various other parties consummated a scheme of arrangement and certain merger transactions, as a result of which Avago and BRCM became indirect subsidiaries of Broadcom Limited, or the Broadcom Transaction. Pursuant to the scheme of arrangement under Singapore law, or the Avago Scheme, all issued ordinary shares of Avago were exchanged on a one-for-one basis for newly issued ordinary shares of Broadcom. Immediately following the consummation of the Avago Scheme, two subsidiaries of Broadcom Limited merged with and into BRCM with BRCM as the surviving corporation of each such merger, or the Broadcom Merger.
The Avago Scheme will be accounted for in all periods presented using a carryover basis, similar to a pooling-of-interests, as the transaction was premised on a non-substantive exchange in order to facilitate the acquisition of BRCM, resulting in the retention of the historical basis of accounting. Under this method of accounting, Broadcom Limited and Avago will be treated as if they had always been combined for accounting and financial reporting purposes. The Broadcom Transaction is discussed in further detail in Note 12. "Subsequent Events".
References to "Broadcom," "the Company," "we," "our," and "us" are to Broadcom Limited and its consolidated subsidiaries, from and after the effective date of the Broadcom Transaction and, prior to that time, to our predecessor, Avago, unless otherwise specified or the context otherwise requires.
We are a leading designer, developer and global supplier of a broad range of analog and digital semiconductor connectivity solutions with a focus on analog III-V based products and complex digital and mixed signal complementary metal oxide semiconductor based devices. We have a history of innovation and offer thousands of products that are used in end products such as data center networking, home connectivity, broadband access, telecommunications equipment, smartphones and base stations, data center servers and storage, factory automation, power generation and alternative energy systems, and displays. We have four reportable segments: enterprise storage, wireless communications, wired infrastructure and industrial & other, which align with our principal target markets.
Basis of Presentation
This is the first Quarterly Report on Form 10-Q, or Form 10-Q, following the Broadcom Transaction. However, as the first fiscal quarter of 2016 ended prior to the completion of the Broadcom Transaction, financial information and results of operations presented in this Form 10-Q are related to the predecessor, Avago.
We operate on a 52- or 53-week fiscal year ending on the Sunday closest to October 31. Our fiscal year ending October 30, 2016, or fiscal year 2016, is a 52-week fiscal year. The first quarter of our fiscal year 2016 ended on January 31, 2016, the second quarter ends on May 1, 2016 and the third quarter ends on July 31, 2016. Our fiscal year ended November 1, 2015, or fiscal year 2015, was also a 52-week fiscal year.
The accompanying unaudited condensed consolidated financial statements include the accounts of Avago and its wholly-owned subsidiaries and have been prepared by us in accordance with generally accepted accounting principles in the United States, or GAAP, for interim financial information. This financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary for a fair statement of the results for the periods presented. The November 1, 2015 condensed consolidated balance sheet data were derived from Avago's audited consolidated financial statements included in Avago's Annual Report on Form 10-K for fiscal year 2015, or 2015 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, or SEC, but do not include all disclosures required by GAAP. Intercompany transactions and balances have been eliminated in consolidation.
The operating results for the fiscal quarter ended January 31, 2016 are not necessarily indicative of the results that may be expected for fiscal year 2016, or for any other future period.
Significant Accounting Policies

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

Table of Contents

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

We sell our products primarily through our direct sales force, distributors and manufacturers' representatives. Two direct customers accounted for 17% and 13% of our net accounts receivable balance at January 31, 2016. One direct customer accounted for 33% of our net accounts receivable balance at November 1, 2015. For the fiscal quarter ended January 31, 2016, two direct customers represented 15% and 10% of our net revenue. For the fiscal quarter ended February 1, 2015, one direct customer represented 27% of our net revenue. The majority of the revenue from these customers was included in our wireless communications segment.

Net income per share. Basic net income per share is computed using the weighted-average number of Avago ordinary shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of Avago ordinary shares and potentially dilutive share equivalents outstanding during the period. Diluted shares outstanding include the dilutive effect of in-the-money share options, restricted share units, or RSUs, employee share purchase rights under the Amended and Restated Broadcom Limited Employee Share Purchase Plan, or ESPP, (together referred to as equity awards) and, for the fiscal quarter ended February 1, 2015, the 2.0% Convertible Senior Notes due 2021 issued by Avago, or the Convertible Notes. The dilutive effect of equity awards is calculated based on the average share price for each fiscal period, using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising share options and to purchase shares under the ESPP, the amount of compensation cost for future service that we have not yet recognized, and the amount of tax benefits that would be recognized when equity awards become deductible for income tax purposes are collectively assumed to be used to repurchase ordinary shares.

The dilutive effect of the Convertible Notes was calculated using the treasury stock method based on our assumption that the Convertible Notes would be settled in cash. The treasury stock method assumed that the carrying value of the Convertible Notes represented proceeds, since settlement of the Convertible Notes tendered for conversion could be settled with cash, Avago ordinary shares or a combination of both at Avago's option.

During the third fiscal quarter of fiscal year 2015, the Convertible Notes were converted in full and settled with a combination of cash and the issuance of 13.8 million of Avago ordinary shares. The incremental Avago ordinary shares attributable to the conversion were a component of diluted shares for the period prior to settlement and a component of basic weighted-average Avago shares outstanding subsequent to the conversion.

There were no material antidilutive equity awards for the fiscal quarter ended January 31, 2016 or February 1, 2015.

Table of Contents

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

	Fiscal Quarter Ended	
	January 31, 2016	February 1, 2015
Net income (Numerator):		
Income from continuing operations	$377	$338
Income from discontinued operations, net of income taxes	—	13
Net income	$377	$351
Shares (Denominator):		
Basic weighted-average ordinary shares outstanding	277	255
Add incremental shares for:		
Dilutive effect of share options, RSUs and ESPP rights	12	12
Dilutive effect of Convertible Notes	—	11
Shares used in diluted computation	289	278
Basic income per share:		
Income per share from continuing operations	$1.36	$1.33
Income per share from discontinued operations, net of income taxes	$—	$0.05
Net income per share	$1.36	$1.38
Diluted income per share:		
Income per share from continuing operations	$1.30	$1.22
Income per share from discontinued operations, net of income taxes	$—	$0.04
Net income per share	$1.30	$1.26

Supplemental cash flow disclosures. At January 31, 2016 and November 1, 2015, we had $52 million and $78 million, respectively, of unpaid purchases of property, plant and equipment included in accounts payable. Amounts reported as unpaid purchases are presented as cash outflows from investing activities for purchases of property, plant and equipment in the condensed consolidated statements of cash flows in the period in which they are paid.

Reclassifications. Certain reclassifications have been made to the prior period condensed consolidated statement of cash flows. These reclassifications have no impact on previously reported net cash activities.

Recently Adopted Accounting Guidance

In November 2015, the Financial Accounting Standards Board, or FASB, issued authoritative guidance that simplifies the presentation of deferred tax assets and liabilities in a classified balance sheet. This guidance eliminates the current requirement to present deferred tax assets and liabilities as current and non-current in a classified balance sheet. Instead, all deferred tax assets and liabilities are classified as non-current. We adopted this guidance during the first fiscal quarter ended January 31, 2016 on a prospective basis. The adoption resulted in $116 million of net current deferred tax assets being reclassified from other current assets to other long-term assets on our condensed consolidated balance sheet.

Recent Accounting Guidance Not Yet Adopted

In February 2016, the FASB issued authoritative guidance related to the accounting for leases, which among other things, requires a lessee to recognize lease assets and lease liabilities on the balance sheet for operating leases. This guidance will become effective for the first quarter of our fiscal year 2020. The new guidance is required to be applied using a modified retrospective approach. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In August 2015, the FASB deferred the effective date of the authoritative guidance that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. This guidance will become effective for the first quarter of our fiscal year 2019. Early adoption is permitted, but not before the first quarter of our fiscal year 2018. The new guidance is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date

9

Table of Contents

of initial application. We have not yet selected a transition method and are currently evaluating the impact of this guidance on our consolidated financial statements.

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

2. Supplemental Financial Information

Inventory

Inventory consists of the following (in millions):

	January 31, 2016	November 1, 2015
Finished goods	$170	$177
Work-in-process	232	271
Raw materials	88	76
Total inventory	$490	$524

Assets held-for-sale

The following table summarizes components of assets held-for-sale (in millions):

	January 31, 2016	November 1, 2015
Real property	$4	$4
Fiber optics subsystem assets	—	18
Total assets held-for-sale	$4	$22

During the fiscal quarter ended January 31, 2016, we completed the sale of certain fiber optics subsystem manufacturing and related assets. We recognized a $16 million loss related to the disposal of these assets in restructuring and disposal charges in our condensed consolidated statements of operations.

The net carrying amount of the fiber optics subsystem assets adjusted to fair value less costs to sell were presented in assets held-for-sale on our condensed consolidated balance sheet as of November 1, 2015.