Broadcom Ltd
Form 10-Q
June 09, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
(MARK ONE)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended May 1, 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	98-1254807
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1 Yishun Avenue 7 Singapore 768923	N/A
(Address of Principal Executive Offices)	(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ 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 þ 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 þ 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 þ

As of May 27, 2016 there were 395,518,581 of our ordinary shares, no par value per share, outstanding.

Table of Contents

BROADCOM LIMITED
Quarterly Report on Form 10-Q
For the Quarterly Period Ended May 1, 2016

TABLE OF CONTENTS

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)

	May 1, 2016	November 1, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$2,041	$ 1,822
Trade accounts receivable, net	1,857	1,019
Inventory	1,467	524
Assets held-for-sale	842	22
Other current assets	480	372
Total current assets	6,687	3,759
Property, plant and equipment, net	2,486	1,460
Goodwill	24,776	1,674
Intangible assets, net	16,944	3,277
Other long-term assets	514	345
Total assets	$51,407	$ 10,515
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$985	$ 617
Employee compensation and benefits	303	250
Current portion of long-term debt	344	46
Other current liabilities	1,019	206
Total current liabilities	2,651	1,119
Long-term liabilities:		
Long-term debt	14,664	3,826
Pension and post-retirement benefit obligations	475	475
Other long-term liabilities	10,855	381
Total liabilities	28,645	5,801
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Ordinary shares, no par value; 394,814,039 shares and 276,259,120 shares issued and outstanding on May 1, 2016 and November 1, 2015, respectively	18,659	2,547
Non-economic voting preference shares, no par value; 22,804,591 shares and no shares issued and outstanding on May 1, 2016 and November 1, 2015, respectively	—	—
Retained earnings	1,116	2,240
Accumulated other comprehensive loss	(73)	(73)
Total Broadcom Limited shareholders' equity	19,702	4,714
Noncontrolling interest	3,060	—
Total shareholders' equity	22,762	4,714
Total liabilities and shareholders' equity	$51,407	$ 10,515

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		Two Fiscal Quarters Ended	
	May 1, 2016	May 3, 2015	May 1, 2016	May 3, 2015
Net revenue	$3,541	$1,614	$5,312	$3,249
Cost of products sold:				
Cost of products sold	1,437	654	2,136	1,344
Purchase accounting effect on inventory	828	—	828	4
Amortization of intangible assets	198	113	328	226
Restructuring charges	32	1	33	3
Total cost of products sold	2,495	768	3,325	1,577
Gross margin	1,046	846	1,987	1,672
Research and development	787	251	1,054	486
Selling, general and administrative	238	108	352	225
Amortization of intangible assets	735	59	789	118
Restructuring, impairment and disposal charges	287	10	318	24
Total operating expenses	2,047	428	2,513	853
Operating income (loss)	(1,001)	418	(526)	819
Interest expense	(256)	(53)	(340)	(107)
Loss on extinguishment of debt	(53)	(13)	(53)	(13)
Other income (expense), net	(6)	12	(3)	16
Income (loss) from continuing operations before income taxes	(1,316)	364	(922)	715
Provision for (benefit from) income taxes	(99)	25	(82)	38
Income (loss) from continuing operations	(1,217)	339	(840)	677
Income (loss) from discontinued operations, net of income taxes	(38)	5	(38)	18
Net income (loss)	(1,255)	344	(878)	695
Net loss attributable to noncontrolling interest	(69)	—	(69)	—
Net income (loss) attributable to ordinary shares	$(1,186)	$344	$(809)	$695
Basic income (loss) per share attributable to ordinary shares:				
Income (loss) per share from continuing operations	$(2.93)	$1.31	$(2.31)	$2.63
Income (loss) per share from discontinued operations	(0.09)	0.02	(0.10)	0.07
Net income (loss) per share	$(3.02)	$1.33	$(2.41)	$2.70
Diluted income (loss) per share attributable to ordinary shares:				
Income (loss) per share from continuing operations	$(2.93)	$1.19	$(2.43)	$2.41
Income (loss) per share from discontinued operations	(0.09)	0.02	(0.11)	0.06
Net income (loss) per share	$(3.02)	$1.21	$(2.54)	$2.47
Weighted-average shares:				
Basic	392	258	335	257
Diluted	415	284	346	281
Cash dividends declared and paid per share	$0.49	$0.38	$0.93	$0.73

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

4

Table of Contents

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 1, 2016	May 3, 2015	May 1, 2016	May 3, 2015
Net income (loss)	$(1,255)	$ 344	$(878)	$ 695
Other comprehensive income, net of tax:				
Reclassification to net income (loss)	—	—	—	1
Other comprehensive income	—	—	—	1
Comprehensive income (loss)	(1,255)	344	(878)	696
Comprehensive loss attributable to noncontrolling interest	(69)	—	(69)	—
Comprehensive income (loss) attributable to ordinary shares	$(1,186)	$ 344	$(809)	$ 696

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)

	Two Fiscal Quarters Ended	
	May 1, 2016	May 3, 2015
Cash flows from operating activities:		
Net income (loss)	$(878)	$695
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,284	456
Share-based compensation	255	106
Excess tax from share-based compensation	(58)	(70)
Non-cash portion of debt extinguishment loss	30	13
Non-cash restructuring, impairment and disposal charges	44	5
Gain on sale of business	—	(14)
Deferred taxes	(172)	(2)
Amortization of debt issuance costs and accretion of debt discount	17	14
Other	26	6
Changes in assets and liabilities, net of acquisitions and disposals:		
Trade accounts receivable, net	(169)	24
Inventory	920	43
Accounts payable	(217)	(23)
Employee compensation and benefits	(51)	(41)
Other current assets and current liabilities	86	(18)
Other long-term assets and long-term liabilities	(21)	(50)
Net cash provided by operating activities	1,096	1,144
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(10,035)	—
Proceeds from sales of businesses	68	650
Purchases of property, plant and equipment	(298)	(339)
Proceeds from disposals of property, plant and equipment	—	63
Purchases of investments	(59)	(9)
Proceeds from sales and maturities of investments	32	—
Net cash provided by (used in) investing activities	(10,292)	365
Cash flows from financing activities:		
Proceeds from term loan borrowings	15,926	—
Debt repayments	(4,839)	(617)
Payment of assumed debt	(1,475)	—
Debt issuance costs	(108)	—
Dividend payments	(326)	(188)
Issuance of ordinary shares	179	130
Excess tax from share-based compensation	58	70
Net cash provided by (used in) financing activities	9,415	(605)
Net change in cash and cash equivalents	219	904
Cash and cash equivalents at the beginning of period	1,822	1,604
Cash and cash equivalents at end of period	$2,041	$2,508

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

6

Table of Contents

BROADCOM LIMITED
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY— UNAUDITED
(in millions)

	Ordinary Shares		Non-Economic Voting Preference Shares		Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of November 1, 2015	276	$2,547	—	$ —	$2,240	$ (73)	$ —	$ 4,714
Issuance of ordinary shares upon the acquisition of Broadcom Corporation	112	15,438	—	—	—	—	—	15,438
Issuance by the Partnership of restricted exchangeable partnership units upon the acquisition of Broadcom Corporation	—	—	—	—	—	—	3,140	3,140
Issuance of non-economic voting preference shares	—	—	23	—	—	—	—	—
Issuance of ordinary shares in connection with equity incentive plans	7	179	—	—	—	—	—	179
Share-based compensation	—	255	—	—	—	—	—	255
Excess tax from share-based compensation	—	58	—	—	—	—	—	58
Cash dividends paid to ordinary shareholders	—	—	—	—	(315)	—	—	(315)
Cash distribution paid by the Partnership on restricted exchangeable partnership units	—	—	—	—	—	—	(11)	(11)
Fair value of partially vested equity awards assumed in connection with the acquisition of Broadcom Corporation	—	182	—	—	—	—	—	182
Net loss	—	—	—	—	(809)	—	(69)	(878)
Balance as of May 1, 2016	395	$18,659	23	$ —	$1,116	$ (73)	$ 3,060	$ 22,762

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, or Broadcom, 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, Broadcom Cayman L.P., or the Partnership, and various other parties completed various transactions, including a scheme of arrangement under Singapore law between Avago and Broadcom, or the Avago Scheme. Pursuant to the Avago Scheme, all issued ordinary shares of Avago were exchanged on a one-for-one basis for newly issued ordinary shares of Broadcom Limited. 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. Following the Avago Scheme and the Broadcom Merger, or the Broadcom Transaction, each of Avago and BRCM became indirect subsidiaries of Broadcom Limited and the Partnership.
The Avago Scheme was 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 and Avago were treated as if they had always been combined for accounting and financial reporting purposes. The Broadcom Merger is discussed in further detail in Note 2. “Acquisitions.”
References to “Broadcom,” “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: wired infrastructure, wireless communications, enterprise storage and industrial & other, which align with our principal target markets.
Basis of Presentation
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 ended 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 condensed consolidated financial statements include the accounts of Broadcom and its subsidiaries and have been prepared by us in accordance with generally accepted accounting principles in the United States, or GAAP, for interim financial information. The financial information included herein is unaudited, and 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, 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.
Broadcom is the sole general partner of the Partnership and, as such we have the exclusive right, power and authority to manage, control, administer and operate the business and affairs and to make decisions regarding the undertaking and business of the Partnership, subject to the terms of the partnership agreement and applicable laws. As a result of our controlling interest, we consolidate the financial results of the Partnership and present a noncontrolling interest for the portion of the Partnership we do not own in our condensed consolidated financial statements. Net loss attributable to the noncontrolling interest on the condensed consolidated statements of operations represents the portion of loss

attributable to the economic interest in the Partnership owned by the holders of the restricted exchangeable partnership units, or Partnership REUs.

The accompanying condensed consolidated financial statements include the results of operations of BRCM and other acquisitions commencing as of their respective acquisition dates.

Table of Contents

The operating results for the fiscal quarter and two fiscal quarters ended May 1, 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.

Derivative instruments. We are subject to foreign currency risks for transactions denominated in foreign currencies, primarily the Singapore Dollar, Malaysian Ringgit, Euro and Japanese Yen. Therefore, we enter into foreign exchange forward contracts to manage financial exposures resulting from the changes in the exchange rates of these foreign currencies. These contracts are designated at inception as hedges of the related foreign currency exposures, which include committed and forecasted revenue and expense transactions that are denominated in currencies other than the functional currency of the subsidiary which has the exposure. We exclude time value from the measurement of effectiveness. To achieve hedge accounting, contracts must reduce the foreign currency exchange rate risk otherwise inherent in the amount and duration of the hedged exposures and comply with established risk management policies; our hedging contracts generally mature within three months. We do not use derivative financial instruments for speculative or trading purposes.

We may designate our forward contracts as either cash flow or fair value hedges. All derivatives are recognized on the condensed consolidated balance sheets at their fair values based on Level 2 inputs as defined in the fair value hierarchy. The accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting. For derivative instruments that are designated and qualify as fair value hedges, changes in value of the instruments are recognized in income in the current period. Such hedges are recognized in net income (loss) and are offset by the changes in fair value of the underlying assets or liabilities being hedged. For derivative instruments that are designated and qualify as cash flow hedges, changes in the value of the effective portion of the derivative instrument are recognized in accumulated other comprehensive loss, a component of shareholders' equity. These amounts are then reclassified and recognized in net income (loss) when either the forecasted transaction occurs or it becomes probable the forecasted transaction will not occur. Changes in the fair value of the ineffective portion of derivative instruments are recognized in net income (loss) in the current period, which have not been material to date. Changes in the value of derivative instruments not designated as hedges are recognized in Other income (expense), net, in our condensed consolidated statements of operations.

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

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. We early-adopted this guidance during the fiscal quarter ended May 1, 2016, and applied its provisions retrospectively. The adoption resulted in $13 million of other current assets and $64 million of other long-term assets being reclassified to long-term debt on our condensed consolidated balance sheet as of November 1, 2015.

Recent Accounting Guidance Not Yet Adopted

In March 2016, the FASB issued authoritative guidance that involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance will be effective for the first quarter of our fiscal year 2018, however early adoption is permitted. We are currently evaluating the impact that this guidance will have on our condensed consolidated financial statements.

In February 2016, the FASB issued authoritative guidance related to the accounting for leases, which among other things,

Table of Contents

requires a lessee to recognize lease assets and lease liabilities on the balance sheet for operating leases. This guidance will be 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 condensed consolidated financial statements.

In September 2015, the FASB issued authoritative guidance which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Acquirers must recognize measurement-period adjustments during the period of resolution, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance will be effective for the first quarter of our fiscal year 2017, however early adoption is permitted. We are currently evaluating the impact that this guidance will have on our condensed 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 be 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 of initial application. In addition, in March, April, and May 2016, the FASB issued final amendments to clarify the implementation guidance for principal versus agent considerations, identifying performance obligations and the accounting for licenses of intellectual property, and narrow-scope improvements and practical expedients, respectively. We have not yet selected a transition method and are currently evaluating the impact of this guidance on our condensed consolidated financial statements.

2. Acquisitions

Acquisition of Broadcom Corporation

The Broadcom Merger closed on February 1, 2016, or the Acquisition Date, pursuant to the terms of the Broadcom Agreement. The aggregate consideration for the Broadcom Merger, which consisted of both cash and equity consideration, was approximately $28,758 million, net of cash acquired.

We funded the cash portion of the Broadcom Merger with the net proceeds from the issuance of the 2016 Term Loans, as defined and discussed in further detail in Note 6. “Borrowings,” as well as cash on hand of the combined companies.

BRCM was a leader in semiconductor solutions for wired and wireless communications and provided a broad portfolio of highly-integrated system-on-a-chip solutions that seamlessly deliver voice, video, data and multimedia connectivity in the home, office and mobile environments. We acquired BRCM to position us as a global diversified leader in wired and wireless communication semiconductors and to deepen our broad portfolios, which will enable us to better address the evolving needs of customers across the wired and wireless end markets.

The aggregate consideration for the Broadcom Merger, net of cash acquired, consisted of the following (in millions):

Cash for outstanding BRCM common stock	$16,798
Fair value of Broadcom ordinary shares issued for outstanding BRCM common stock	15,438
Fair value of Partnership restricted exchangeable units issued for outstanding BRCM common stock	3,140
Fair value of partially vested assumed restricted stock unit awards	182
Cash for vested BRCM equity awards	137
Effective settlement of pre-existing relationships	11
Total purchase consideration	35,706
Less: cash acquired	6,948
Total purchase consideration, net of cash acquired	$28,758

We issued 112 million ordinary shares and the Partnership issued 23 million Partnership REUs, all of which are valued and presented in the above table, to former BRCM shareholders in the Broadcom Merger. We also assumed unvested restricted stock unit awards, or RSUs, originally granted by BRCM and converted them into 6 million of our RSUs. The portion of the fair value of partially vested assumed RSUs associated with prior service of BRCM employees represented a component of the total consideration, as presented above, and was valued based on our share price as of the Acquisition Date.

We allocated the purchase price to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The fair value of 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 the estimated fair value of tax accounts, we may further revise our preliminary purchase price allocation during the remainder of the measurement

Table of Contents

period (which will not exceed 12 months from the Acquisition Date). Any such revisions or changes may be material as we finalize the fair values of the tangible and intangible assets acquired and liabilities assumed.

Our preliminary allocation of the total purchase price, net of cash acquired, is as follows (in millions):

	Estimated Fair Value
Trade accounts receivable	$669
Inventory	1,853
Assets held-for-sale	833
Other current assets	194
Property, plant and equipment	889
Goodwill	23,076
Intangible assets	14,808
Other long-term assets	121
Total assets acquired	42,443
Accounts payable	(559)
Employee compensation and benefits	(104)
Current portion of long-term debt	(1,475)
Other current liabilities	(791)
Long-term debt	(139)
Other long-term liabilities	(10,617)
Total liabilities assumed	(13,685)
Fair value of net assets acquired	$28,758

Goodwill was primarily attributable to the assembled workforce, anticipated synergies and economies of scale expected from the operations of the combined company. The synergies include certain cost savings, operating efficiencies, and other strategic benefits projected to be achieved as a result of the Broadcom Merger. Goodwill is not expected to be deductible for tax purposes.

The assets held-for-sale represented BRCM's businesses that are not aligned with our strategic objectives. Assets held-for-sale are discussed in further detail in Note 3. "Supplemental Financial Information."

Our results of continuing operations for the fiscal quarter and two fiscal quarters ended May 1, 2016 include $2,327 million of net revenue attributable to BRCM. It is impracticable to determine the effect on net income attributable to BRCM for the periods presented as we immediately integrated BRCM into our ongoing operations. Transaction costs of $29 million and $37 million incurred in connection with the Broadcom Merger are included in selling, general and administrative expense in the condensed consolidated statements of operations for the fiscal quarter and two fiscal quarters ended May 1, 2016, respectively.

Intangible Assets

Identified intangible assets and their respective useful lives were as follows:

	Approximate Fair Value (in millions)	Weighted-Average Amortization Periods (in years)
Developed technology	$ 9,010	6
Customer contracts and related relationships	2,703	2
Order backlog	750	< 1
Trade name	350	17
Other	45	16
Total identified finite-lived intangible assets	12,858	
In-process research and development	1,950	N/A
Total identified intangible assets, net of assets held-for-sale	14,808	

Intangible assets included in assets held-for-sale	320
Identified intangible assets	$ 15,128

Table of Contents

Developed technology relates to products for wired and wireless communication applications. We valued the developed technology using the multi-period excess earnings method under the income approach. This method reflects the present value of the projected cash flows that are expected to be generated by the developed technology less charges representing the contribution of other assets to those cash flows. The economic useful life was determined based on the technology cycle related to each developed technology, as well as the cash flows over the forecast period.
Customer contracts and related relationships represent the fair value of future projected revenue that will be derived from sales of products to existing customers of BRCM. Customer contracts and related relationships were valued using the with-and-without-method under the income approach. In this method, the fair value was measured by the difference between the present values of the cash flows with and without the existing customers in place over the period of time necessary to reacquire the customers. The economic useful life was determined based on historical customer turnover rates.
Order backlog represents business under existing contractual obligations as of the Acquisition Date. The fair value of backlog was determined using the multi-period excess earnings method under the income approach based on expected operating cash flows from future contractual revenue. The economic useful life was determined based on the expected life of the backlog and the cash flows over the forecast period.
Trade name relates to the “Broadcom” trade name. The fair value was determined by applying the relief-from-royalty method under the income approach. This valuation method is based on the application of a royalty rate to forecasted revenue under the trade name. The economic useful life was determined based on the expected life of the trade name and the cash flows anticipated over the forecasted periods.
The fair value of in-process research and development, or IPR&D, was determined using the multi-period excess earnings method under the income approach. This method reflects the present value of the projected cash flows that are expected to be generated by the IPR&D, less charges representing the contribution of other assets to those cash flows.
We believe the amounts of purchased intangible assets recorded above represent the fair values of, and approximate the amounts a market participant would pay for, these intangible assets as of the Acquisition Date.
The following table summarizes the details of IPR&D by category as of the Acquisition Date (dollars in millions):

Description	IPR&D	Percentage of Completion		Estimated Cost to Complete	Expected Release Date (by fiscal year)
Set-top box solutions	$ 90	56	%	$ 90	2016 - 2017
Broadband carrier access solutions	390	34		376	2016 - 2018
Carrier switch solutions	270	51		255	2016 - 2019
Compute and connectivity solutions	170	61		136	2016 - 2018
Physical layer product solutions	190	51		71	2016 - 2019
Wireless connectivity combo solutions	770	57		364	2016 - 2018
Touch controllers	70	39		21	2016 - 2017

Discount rates of 14% and 16% were applied to the projected cash flows to reflect the risk related to these wired and wireless IPR&D, respectively. These discount rates represent a premium of 2% over the respective wired and wireless weighted-average cost of capital to reflect the higher risk and uncertainty of the cash flows for IPR&D relative to the overall businesses.
Unaudited Pro Forma Information
The following unaudited pro forma financial information presents combined results of operations for each of the periods presented, as if BRCM had been acquired as of the beginning of fiscal year 2015. The unaudited pro forma financial information for the two fiscal quarters ended May 1, 2016 combined the historical results of Avago for the fiscal quarter ended January 31, 2016, the historical results of BRCM for the three months ended December 31, 2015, representing BRCM’s previous reporting period prior to the Acquisition Date, and the historical results of Broadcom for the fiscal quarter ended May 1, 2016. The pro forma information includes adjustments to amortization and depreciation for intangible assets and property, plant and equipment acquired, adjustments to share-based compensation expense, the purchase accounting effect on inventory acquired, interest expense for the additional

indebtedness incurred to complete the acquisition, restructuring charges in connection with the acquisition and acquisition costs. 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 fiscal year 2015 or of the results of future operations of the combined business. Consequently, actual results

Table of Contents

will differ from the unaudited pro forma information presented below (in millions, except for per share amounts):

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 1, 2016	May 3, 2015	May 1, 2016	May 3, 2015
Pro forma net revenue	$3,538	$3,669	$7,359	$7,444
Pro forma net loss from continuing operations	(607)	(248)	(459)	(1,014)
Pro forma net loss	(645)	(243)	(497)	(996)
Pro forma net loss attributable to ordinary shares	(608)	(230)	(468)	(941)
Pro forma loss per share attributable to ordinary shares - basic and diluted	(1.55)	(0.62)	(1.40)	(2.55)

3. Supplemental Financial Information

Cash, Cash Equivalents and Short-Term Investments

Cash equivalents included $307 million and $490 million of time deposits as of May 1, 2016 and November 1, 2015, respectively. As of May 1, 2016 and November 1, 2015, cash equivalents also included $132 million and $100 million of money-market funds, respectively. For time deposits, carrying value approximates fair value due to the short-term nature of the instruments. The fair value of money-market funds as of May 1, 2016 and November 1, 2015 approximates the carrying value and is determined using unadjusted prices in active, accessible markets for identical assets, as such they are classified as Level 1 assets in the fair value hierarchy.

Available-for-sale investments of $15 million and $58 million, primarily consisting of corporate bonds, are reported at fair value and are included in cash and cash equivalents and other current assets, respectively, on our condensed consolidated balance sheet as of May 1, 2016. These available-for-sale investments are traded less frequently than Level 1 securities and are valued using inputs that include quoted prices for similar assets in active markets and inputs other than quoted prices that are observable for the assets. As such, they are classified as Level 2 assets in the fair value hierarchy.

Inventory

Inventory consists of the following (in millions):

	May 1, 2016	November 1, 2015
Finished goods	$720	$ 177
Work-in-process	479	271
Raw materials	268	76
Total inventory	$1,467	$ 524

Assets held-for-sale

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

	May 1, 2016	November 1, 2015
Goodwill	$ 445	$ —
Intangible assets, net	328	—
Other assets	69	22
Total assets held-for-sale	$ 842	$ 22

In connection with the Broadcom Merger, we classified certain BRCM businesses as assets held-for-sale on February 1, 2016. The carrying value of these assets as of May 1, 2016 represents the fair value determined in the preliminary purchase price allocation of the Broadcom Merger, adjusted for operating activities since the Acquisition Date. During the fiscal quarter ended May 1, 2016, we entered into agreements to sell our Wireless Internet of Things, or IoT, and Wireless Infrastructure Backhaul businesses for $550 million and $80 million, respectively. As of May 1, 2016, the carrying values of these businesses approximated the selling prices.

During the two fiscal quarters ended May 1, 2016, we recognized a $16 million loss related to the sale of certain fiber optics subsystem manufacturing and related assets in restructuring, impairment and disposal charges in our condensed consolidated statements of operations. See Note 12. “Restructuring, Impairment and Disposal Charges.”

13

Table of Contents

Discontinued Operations

We have presented the results of the BRCM businesses discussed above under "Assets held-for-sale", as well as the sale of our Axxia business in fiscal year 2015, in discontinued operations. The following table summarizes the selected financial information of discontinued operations (in millions):

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	May 1, 2016	May 3, 2015	May 1, 2016	May 3, 2015
Net revenue	$ 64	$ 12	$ 64	$ 53
Income (loss) from discontinued operations before gain on disposal and income taxes	$ (61)	$ 5	$ (61)	$ 17
Gain on disposal of discontinued operations	—	—	—	14
(Provision for) benefit from income taxes	23	—	23	(13)
Income (loss) from discontinued operations, net of income taxes	$ (38)	$ 5	$ (38)	$ 18

Accrued Rebate Activity

The following table summarizes activity related to accrued rebates included in other current liabilities on our condensed consolidated balance sheet (in millions):

	Two Fiscal Quarters Ended	
	May 1, 2016	May 3, 2015
Beginning balance	$ 26	$ 31
Liabilities assumed in acquisitions	359	—
Charged as a reduction of revenue	223	16
Reversal of unclaimed rebates	(3)	—
Payments	(215)	(22)
Ending balance	$ 390	$ 25

Other Long-Term Liabilities

Other long-term liabilities consist of the following (in millions):

	May 1, 2016	November 1, 2015
Deferred tax liabilities	$ 9,837	$ 9
Unrecognized tax benefits [(a)]	842	317
Other	176	55
Total other long-term liabilities	$ 10,855	$ 381

(a) Includes accrued interest and penalties.

Supplemental Cash Flow Disclosures

At May 1, 2016 and November 1, 2015, we had $133 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.

Table of Contents

4. Goodwill and Intangible Assets

Goodwill

The following table summarizes changes in goodwill by segment (in millions):

	Wired Infrastructure	Wireless Communications	Enterprise Storage	Industrial & Other	Total
Balance as of November 1, 2015	$ 287	$ 261	$ 990	$ 136	$1,674
Broadcom Merger	17,395	5,681	—	—	23,076
Other acquisitions	—	21	11	—	32
Reclassification of goodwill related to certain assets held-for-sale	—	—	(6)	—	(6)
Balance as of May 1, 2016	$ 17,682	$ 5,963	$ 995	$ 136	$24,776

During the two fiscal quarters ended May 1, 2016, we made two immaterial acquisitions in addition to the Broadcom Merger.

Intangible Assets

Intangible assets consist of the following (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
As of May 1, 2016:			
Purchased technology	$ 12,053	$ (1,489)	$10,564
Customer and distributor relationships	4,401	(857)	3,544
Backlog	848	(473)	375
Trade names	528	(57)	471
Other	66	(3)	63
Intangible assets subject to amortization	17,896	(2,879)	15,017
IPR&D	1,927	—	1,927
Total	$ 19,823	$ (2,879)	$16,944
As of November 1, 2015:			
Purchased technology	$ 2,918	$ (1,165)	$1,753
Customer and distributor relationships	1,702	(459)	1,243
Trade names	178	(41)	137
Other	120	(101)	19
Intangible assets subject to amortization	4,918	(1,766)	3,152
IPR&D	125	—	125
Total	$ 5,043	$ (1,766)	$3,277

Table of Contents

During the two fiscal quarters ended May 1, 2016, we reclassified $141 million of IPR&D to purchased technology and wrote off $26 million to restructuring, impairment and disposal charges for certain IPR&D projects which were abandoned as a result of the Broadcom Merger.

Based on the amount of intangible assets subject to amortization at May 1, 2016, the expected amortization expense for each of the next five fiscal years and thereafter is as follows (in millions):

Fiscal Year:	
2016 (remainder)	$1,510
2017	4,159
2018	2,771
2019	2,014
2020	1,658
2021	1,327
Thereafter	1,578
Total	$15,017

The weighted-average amortization periods remaining by intangible asset category as of May 1, 2016 were as follows (in years):

Amortizable intangible assets:	
Purchased technology	6
Customer and distributor relationships	3
Trade name	14
Other	16
Backl	