NETLOGIC MICROSYSTEMS INC
Form 10-K
February 16, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010
OR

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

For the Transition Period from to

Commission File Number: 000-50838

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

Delaware	77-0455244
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)
3975 Freedom Circle, Santa Clara,, California	95054
(Address of principal executive office)	(Zip Code)

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

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

Large accelerated filer x 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 x

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $1,577,392,512 (based on the last reported sale price of $27.20 on June 30, 2010).

67,666,718 shares of the Registrant's common stock, par value $0.01 per share, were outstanding as of January 31, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions registrant's proxy statement to be delivered to stockholders in connection with the registrant's 2011 Annual Meeting of Stockholders to be held on or about May 20, 2011 are incorporated by reference into Part III of this Form 10-K. The registrant intends to file its proxy statement within 120 days after its fiscal year end.

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PART I

Forward-looking Statements

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

ITEM 1. BUSINESS.

Overview

We are a leading fabless semiconductor company that designs, develops and sells proprietary high-performance processors and high-speed integrated circuits that are used to enhance the performance, functionality and energy efficiency of advanced mobile wireless infrastructure, data center, enterprise, metro Ethernet, edge and core infrastructure networks. Our market-leading product portfolio includes high-performance multi-core communications processors, knowledge-based processors, high-speed 10/40/100 Gigabit Ethernet (GE) physical layer (PHY) devices, network search engines, and ultra low-power embedded processors. These products are designed into high-performance systems such as switches, routers, wireless base stations, access aggregation, radio network controllers, security appliances, networked storage appliances, service gateways and connected media devices offered by leading original equipment manufacturers (OEMs) such as Alcatel-Lucent, Brocade Communications Systems, Inc., Cisco Systems, Inc., Dell Inc., Ericsson, Finisar Corporation, Hewlett Packard Corporation, Huawei Technologies Co., Ltd., Juniper Networks, Inc., McAfee, Inc., Motorola, Inc., Nokia Siemens Networks, Tellabs, Inc., and ZTE Corporation.

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

In 2009, we broadened our customer base and product portfolio, and strengthened our competitive positioning and research and development capabilities through the acquisitions of the network search engine business from (NSE) Integrated Device Technology (IDT) in July 2009, and the acquisition of RMI Corporation (RMI) in October 2009, which added high-performance and low-power multi-core, multi-threaded processors to our product offering. In connection with our acquisition of RMI, we issued approximately 9.9 million shares of our common stock and paid

$12.6 million cash to the former stockholders of RMI as merger consideration. Approximately 10% of the shares of our common stock were held in escrow as security for claims and expenses that might arise during the first 12 months following the closing date and were subsequently released to the former holders of RMI capital stock in October 2010. Additionally, in December 2010 we issued approximately 2.4 million additional shares of our common stock and paid an additional $11.5 million cash to the former RMI stockholders as earn-out consideration based upon the achievement of specified percentages of revenue targets for the 12-month period from November 1, 2009 through October 31, 2010 with respect to sales of RMI products.

In 2010, we focused on strategically investing in our product development, scaling our business operations to support our growth, and continuing to successfully integrate the IDT NSE business and RMI. In product development, we introduced new products in each of our primary product families, including our XLP multi-core, multi-threaded communications processor, new members of our NL10000 and NL11000 knowledge-based processor families, and our NLP1342 PHY product. We also continued our efforts to transition our product portfolio of multi-core processing, knowledge-based processing and physical layer solutions to the advanced 40 nanometer (nm) process node. In order to support our growing business operations, we increased our worldwide hiring by adding 95 new employees and improving our processes and systems related to management information and enterprise resource planning systems to keep in pace with our breadth and scale of business while maintaining regulatory compliance. Our integration of the IDT NSE business and RMI included the continued assimilation of employees, retention of key personnel and existing customers and acquisition of new customers.

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Our Markets

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

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

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

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

- Internet browsing and video portal viewing delivered over the IP infrastructure to cell phones and other mobile devices.

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

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

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

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Our Strategy

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

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

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

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

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

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

important for securing new customers and design wins and to support OEMs in bringing their products to markets.

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Our Products

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

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

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

Layer 3-4 Knowledge-based Processors. Layers 3 and 4 refer to the data and transport layers, respectively, of the Open Systems Interconnection (OSI) reference model. For networking infrastructure that supports Layer 3-4 routing, decisions on how to handle IP packets are made using the data that is contained in the packet header. The packet header information consists of key data regarding the packet, including the IP address of the system that generated the packet, referred to as the source IP address, and the IP address of the device to which the packet is to be transmitted, referred to as the destination IP address. Our proprietary NL5000, NL6000, NL7000, NL8000 NL9000, NL10000 and NL11000 families of knowledge-based processors operate in conjunction with an OEM-developed custom application-specific integrated circuits (ASIC), programmable logic devices, and one or more network processing units (NPUs), and advanced interface technology to enable networking OEMs to meet their system performance requirements for Layer 3-4 processing. We also provide unique customized versions of our proprietary interface knowledge-based processors that work with proprietary custom integrated circuits and application software developed by or in collaboration directly with our customers. We offer knowledge-based processors with a range of knowledge database sizes, and all of our knowledge-based processors are designed to be connected in groups to increase the knowledge database available for processing.

In 2010, we collaborated with one of our long-time foundry partners Taiwan Semiconductor Manufacturing Company (TSMC) to migrate our knowledge-based processor family to the 40 nm process node. As part of this migration, we announced new members of our NL10000 and NL11000 knowledge-based processor families fabricated on TSMC's 40 nm process node, each of which includes enhanced knowledge-based processing cores capable of achieving 1.6 billion decisions per second (BDPS). The NL11000 family integrates our serializer-deserializer (SerDes) technology from our PHY products to provide a serial interface that delivers 225 Gigabits per second (Gbps) of chip-to-chip interconnect bandwidth. This high performance input/output (I/O) bandwidth is particularly useful in processing IPv6. Both the NL10000 and NL11000 knowledge-based processors are optimized for IPv6 processing, and the NL10000 family maintains compatibility with previous generations of knowledge-based processors to allow OEMs to

leverage existing software and ASIC investments while upgrading to IPv6.

NETL7™ Layer 7 Knowledge-based Processors. For networking infrastructure that supports Layer 7 routing, decisions on how to handle IP packets are made using the information that is contained in the packet payload or packet content. The packet content contains the actual data being transmitted between applications using the network. Layer 7 of the OSI reference model, known as the application layer, facilitates communication between software applications and lower-layer network services. Our NETL7™ knowledge-based processors are designed to accelerate Layer 7 content processing and signature recognition tasks for enterprise and carrier-class networks.

NETLite™ Processors and Network Search Engines

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

We also continue to provide network search engine products including those we acquired from IDT in July 2009, the TCAM2 products we purchased from Cypress Semiconductor Corporation in August 2007, and our legacy network search engines. We introduced our network search engine products between 1998 and 2001. These products are fabricated by IDT, UMC or TSMC using a range of process technologies from 0.35 micron to 0.15 micron.

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Multi-Core Communications Processors

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

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

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

XLP™ Processor Family. In 2010, we shipped to our customers first samples of our XLP multi-core, multi-threaded communications processor. Designed on TSMC’s 40 nm process node, the XLP processor family offers scalability to 128 NXCPUs, each operating at up to 2.0 Giga Hertz (GHz) and over 160 programmable processing engines to deliver 160Gbps throughput and 240 million packets-per-second (Mpps) of intelligent application performance over the high-speed Inter-chip Coherency Interface™ (ICI) that offers cache and memory coherency to enable software applications to seamlessly run in Symmetric Multi Processing (SMP) or Asymmetric Multi Processing (AMP) modes.

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

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

10-100 Gigabit Ethernet Physical Layer Products

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

Ultra Low-Power Processor Family

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

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Customers

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

We work with these and other OEMs to understand their requirements, and provide them with solutions that they then qualify and, in some cases, specify for use within their systems. While we sell directly to some OEMs, we also provide our products and services indirectly to other OEMs through their contract manufacturers, who in turn assemble our products into systems for delivery to our OEM customers. Sales to contract manufacturers accounted for 44%, 43%, and 41% of total revenue in 2010, 2009, and 2008, respectively. Sales of our products are generally made under short-term, cancelable purchase orders. As a result, our ability to predict future sales in any given period is limited and subject to change based on demand for our OEM customers' systems and their supply chain decisions.

We also provide our products and services indirectly to our OEM customers or their contract manufacturers through our international stocking sales representatives. Our stocking sales representatives are independent entities that assist us in identifying and servicing foreign networking OEMs and generally purchase our products directly from us for resale to OEMs or contract manufacturers located outside the U.S. In general, these international stocking sales representatives generally exclusively service a particular foreign region or customer base, and purchase our products pursuant to cancelable and re-schedulable purchase orders containing our standard warranty provisions for defects in materials, workmanship and product performance. At our option, defective products may be returned for their purchase price or for replacement. To date, our international stocking sales representatives have returned a small number of defective products to us. Our international stocking sales representatives may also act as a sales representative and receive commissions on sales of our products. Sales through our international stocking sales representatives accounted for 6%, 6%, and 10% of total revenue in 2010, 2009, and 2008, respectively. While we have purchase agreements with our international stocking sales representatives, they do not have long-term contracts with any of our OEM customers that use our products and services.

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

For 2010, 2009 and 2008, our top five customers in terms of revenue accounted for approximately 58%, 68% and 68%, respectively, of total product revenue. Although we believe our revenues will continue to be concentrated among our largest customers, we expect that continued favorable market trends, such as the increasing number of 10 Gigabit ports resulting as enterprises and datacenters upgrade their legacy networks to better accommodate the proliferation of video and virtualization applications, and the growing mobile wireless infrastructure and IPTV markets, will enable us to broaden our customer base. Additionally, we believe that our expanding product portfolio will also help us to further diversify our customer and product revenues further, as well as expand our offerings to our existing customers.

We maintain inventory, or “hubbing”, arrangements with certain customers, including our largest customer, Cisco and its supplier, Wintec Industries. Pursuant to these arrangements, we deliver products to a customer, an intermediary or a designated third party warehouse based upon the customer’s projected needs, but do not recognize product revenue unless and until the customer, intermediary or third-party warehouse reports that it has removed, or pulled, our

product from the warehouse to be incorporated into the customers' end products. Historically, we have had reasonable visibility of these customers' requirements within a quarter, and we typically commit resources and incur expenses based on our projections. Therefore, if a customer that uses a hubbing arrangement does not take delivery of products in accordance with the schedule it originally provided to us, our predicted future revenue stream may vary substantially from our forecasts, and our results of operations could be materially and adversely affected because we typically commit resources and incur expenses based on our projections. In addition, although we own the inventory physically located at these hubs, our ability to effectively manage inventory levels may be restricted, causing our total inventory levels to increase. This, in turn, could increase our expenses associated with excess and obsolete product and negatively impact our cash flows.

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

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Sales, Marketing and Distribution

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

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

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

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

We operate in one business segment and primarily sell our products directly to customers in the United States, Asia and Europe. Sales for the geographic regions reported below are based upon the location to which we ship. The following is a summary of the geographic information related to revenues for the years ended December 31, 2010, 2009 and 2008:

	Year ended December 31,		
	2010	2009	2008
Revenue:			
United States	18 %	25 %	33 %
China	38 %	27 %	22 %
Malaysia	26 %	31 %	30 %
Other	18 %	17 %	15 %
Total	100 %	100 %	100 %

Research and Development

We devote substantial resources to the development of new products, improvement of existing products and support of the emerging requirements of our targeted customers. We have assembled a team of product designers possessing

extensive experience in system architecture, analog and digital circuit design, hardware reference board design, software architecture and driver design and advanced fabrication process technologies. Our engineering design teams are located in Santa Clara, California, Austin, Texas, Beijing, China and Bangalore and Mumbai, India. As of December 31, 2010, we had approximately 393 employees engaged in research and development worldwide. Our research and development expenses were $127.7 million, $73.6 million, and $51.6 million for the years ended December 31, 2010, 2009, and 2008, respectively.

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

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Manufacturing and Materials

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

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

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

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

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

Competition

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

- processing speed and performance;
- power dissipation;
- capacity of the knowledge or signature database that can be processed;
- advanced product features allowing OEM and system customer product differentiation;
- price;

- product availability and reliability;
- customer support and responsiveness;
- timeliness of new product introductions; and
- credibility in designing and manufacturing products.

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

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Intellectual Property

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

As of February 1, 2011, we held 500 issued patents comprising 482 issued U.S. patents and 18 issued foreign patents with expiration dates ranging from 2014 to 2030. We also have numerous patent applications pending in the U.S. and abroad. We may not receive any additional patents as a result of these applications or future applications. Nonetheless, we continue to pursue the filing of additional patent applications. Any rights granted under any of our existing or future patents may not provide meaningful protection or any commercial advantage to us.

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

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

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

Employees

As of December 31, 2010, we had 645 employees worldwide, including 393 in research and development, 77 in operations, 126 in sales and marketing and 49 in general and administrative. None of our employees are covered by collective bargaining agreements. We believe our relations with our employees are good.

Available Information

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

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ITEM 1A. RISK FACTORS.

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

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

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

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

To date, we have been dependent on sales to a limited number of customers, including Cisco, for most of our total revenue. During the years ended December 31, 2010, 2009 and 2008, our top five customers accounted for 58%, 68% and 68% of our total revenue, respectively. Also, within those revenues, during the years ended December 31, 2010, 2009, and 2008 Cisco and its contract manufacturers accounted for 27%, 35% and 38% of our total revenue, respectively. We expect that our future financial performance will continue to depend in large part upon our relationship with Cisco and several other large OEMs.

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

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

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

- we may face increased pressure to reduce the average selling prices of our products;

- we may find it difficult to pass through increases in our manufacturing and other direct costs;

- the reputation of our products in the marketplace may be affected adversely if any of our large OEM customers that represent a significant percentage of our sales of products reduce or cease their use of our products; and

- we may face problems in collecting a substantial portion of our accounts receivable if any of these companies faces financial difficulties or dispute payments.

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

We reported a net loss of $66.4 million and $47.2 million during 2010 and 2009, respectively. We reported net income of $3.6 million and $2.6 million during 2008 and 2007, respectively and recorded net losses in years prior to 2005. At December 31, 2010, we had an accumulated deficit of approximately $189.5 million. To regain profitability, we will have to continue to generate greater total revenue and control costs and expenses. We cannot assure you that we will be able to generate greater total revenue, or limit our costs and expenses, sufficiently to sustain profitability on a quarterly or annual basis. We have used a substantial part of our cash flows from operations, and other sources of capital, to make acquisitions, with respect to which we have incurred substantial charges for amortization of intangibles, changes in contingent earn-out liability, fair value inventory adjustments and increased stock-based compensation expenses. Due to these items we have reported net losses under U.S. generally accepted accounting principles in 2010 and 2009 and significantly lower profit than would otherwise have been the case. If we continue to make acquisitions and other transactions that generate substantial expenses related to acquired intangible assets, fair value adjustments to acquired inventory and other acquisition-related items, we may not become profitable in the near term even though we otherwise meet our growth and operating objectives.

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

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

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

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

Many of our OEM customers, including Cisco, use third party contract manufacturers to manufacture their systems. These contract manufacturers represented 44%, 43% and 41% of our total revenue for 2010, 2009 and 2008,

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

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

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

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

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

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

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

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

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

We also rely on third party component suppliers to provide custom designed integrated circuit packages for our products. In some instances, these package designs are provided by a single supplier. Our reliance on these suppliers involves a number of risks, including reduced control over delivery schedules, quality assurance and costs. We

currently do not have long-term supply contracts with any of these package vendors. As a result, most of these third party vendors are not obligated to provide products or perform services to us for any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. The inability of these third party vendors to deliver packages of acceptable quality and in a timely manner, particularly the sole source vendors, could adversely affect our delivery commitments and adversely affect our operating results or cause them to fluctuate more than anticipated. Additionally, these packages may require specialized or high-performance component parts that may not be available in quantities or in time frames that meet our requirements or the anticipated requirement of our customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- immediate and substantial dilution to investors resulting from the grant of additional equity awards necessary to retain employees; and

- potential compensation charges against the company, which could negatively impact our operating results.

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

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

We conduct a significant amount of our business with companies that operate primarily outside of the United States, and intend to increase sales to companies operating outside of the United States. For example, our customers based outside the United States accounted for 82%, 75% and 67% of our total revenue during 2010, 2009 and 2008, respectively. Not only are many of our customers located abroad, but our wafer foundries are predominantly located in Taiwan, and we outsource the assembly and testing of our products to companies based principally in Taiwan. We face a variety of challenges in doing business internationally, including:

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

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

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

In general, our OEM customers design our products into their equipment during the early stages of their development after an in-depth technical evaluation of both our and our competitors' products. These design wins are critical to the success of our business. In competing for design wins, if a competitor's product is already designed into the product offering of a potential customer, it becomes very difficult for us to sell our products to that customer. Changing suppliers involves additional cost, time, effort and risk for the customer. In addition, our products must comply with the continually evolving specifications of our OEMs. Our ability to compete in the future will depend, in large part, on our ability to comply with these specifications. As a result, we expect to invest significant time and effort and to incur

significant expense to design our products to ensure compliance with relevant specifications. Even if an OEM designs our products into its systems, we cannot assure you that its systems will be commercially successful or that we will receive significant revenue from sales of our products for those systems.

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

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

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

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

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

If our products are defective or malfunction, we could be subject to product warranty or product liability claims that could have significant related warranty charges or warranty reserves in our financial statements. Further, we may spend significant resources investigating potential product design, quality and reliability claims, which could result in additional charges in our financial statements until such claims are resolved. We cannot guarantee that warranty reserves will either increase or decrease in future periods. Further, in connection with master purchase agreements that we entered into with certain large OEM customers, we agreed to provide varying product warranty periods and to indemnify customers for costs incurred in rectifying epidemic failures. If we are required to make payments under this indemnity, our operating results may be adversely affected. Moreover, these claims in the future, regardless of their outcome, could adversely affect our business.

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

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

- foreign currency exchange fluctuations;
- the timing and volume of orders received from our customers;
- market demand for, and changes in the average selling prices of, our products;
- the rate of qualification and adoption of our products by networking OEMs;
- fluctuating demand for, and lengthy life cycles of, the products and systems that incorporate our products;
- the market success of the OEM systems that incorporate our products;
- the ability of our wafer foundries to supply us with production capacity and finished products to sell to our customers;
- changes in the level of our costs and operating expenses;
- our ability to receive our manufactured products from our wafer foundries and ship them within a particular reporting period;
- deferrals or cancellations of customer orders in anticipation of the development and commercialization of new technologies or for other reasons;

- changes in our product lines and revenue mix;
- the timing of the introduction by others of competing, replacement or substitute products technologies;
- our ability or the ability of our customers that use our products to procure required components or fluctuations in the cost of such components;
- cyclical fluctuations in semiconductor or networking markets; and
- general economic conditions that may affect end-user demand for products that use our products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- integration of the acquired employees, operations, technologies and products with our existing business and products;

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

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

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

We rely on third parties for technologies that are integrated into a number of our products, such as wafer fabrication and assembly and test technologies used by its contract manufacturers, as well as licensed MIPS architecture technologies. If we are unable to continue to use or license these technologies on reasonable terms, or if these technologies fail to operate properly following the acquisition, we may not be able to secure alternatives in a timely manner, and our ability to remain competitive in the markets served by these products would be harmed. In addition, the MIPS license requires that certain improvements be made available to the community of all of MIPS' licensees, which could conceivably reduce the proprietary advantage that we will have with this architecture. If we are unable to license technology from third parties on commercially reasonable terms in order to continue to develop current products or to develop future products for the markets served by the RMI products, we may not be able to develop these products in a timely manner or at all.

We are exposed to potential impairment charges on certain assets.

Over the past several years, we have made several acquisitions. As a result of these acquisitions, we had approximately $112.7 million of goodwill, $180.8 million of intangible assets and other long-lived assets on our balance sheet as of December 31, 2010. Under GAAP, we are required to review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We perform an assessment of long-lived assets annually and on an interim basis whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the businesses acquired fail to meet the expectations we established at the time of the acquisition, or if our market capitalization adjusted for control premiums and other factors declines to below our carrying value, we could incur significant goodwill or intangible impairment charges, which could negatively impact our results of operations. In addition, from time to time, we have made investments in other companies which are privately held. If such companies are unable to execute their business plans and succeed in their respective markets, we may not benefit from the investments, and may incur a loss on them. We evaluate our investment portfolio on a regular basis to determine if impairments have occurred. Impairment charges could have a material impact on our results of operations in any period.

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

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

outcome will ultimately be resolved and whether we will be required to make additional tax payments.

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

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

Because we incorporate encryption technology into our communication processors, some of these products are subject to United States export controls and may be exported outside the United States only with the required level of export license or through an export license exception. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to introduce products or could limit our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or an inability to export or sell our products to, existing or prospective customers with international operations and harm our business.

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RISKS RELATING TO OUR COMMON STOCK

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

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

Our common stock has experienced substantial price volatility.

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

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

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

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

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

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

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

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

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

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

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Executive Officers of the Registrant

The following table provides the names, ages and offices of each of our current executive officers:

Title	Age	Position
Ronald Jankov	52	Director, Chief Executive Officer and President
Behrooz Abdi	49	Executive Vice President and General Manager
Michael Tate	44	Vice President and Chief Financial Officer
Marcia Zander	48	Senior Vice President of Worldwide Sales
Varadarajan Srinivasan	60	Vice President of Product Development and Chief Technical Officer
Dimitrios Dimitrelis	53	Vice President of Engineering
Mozafar Maghsoudnia	45	Vice President of Worldwide Manufacturing
Ibrahim Korgav	62	Senior Vice President of Worldwide Business Operations
Chris O'Reilly	38	Vice President of Marketing
Roland Cortes	45	Vice President, General Counsel and Secretary

Ronald Jankov has served as our President, Chief Executive Officer and as a member of our board of directors since April 2000. Prior to joining us, Mr. Jankov served as Senior Vice President at NeoMagic Corp. through its IPO in 1997, and Vice President of Cyrix Corporation through its IPO in 1993. Mr. Jankov began his career with various engineering and management positions at Texas Instruments and LSI Logic Corp.

Behrooz Abdi has served as our Executive Vice President and General Manager since he joined us in November 2009 as part of our acquisition of RMI Corporation. From November 2007 to October 2009, Mr. Abdi was President and Chief Executive Officer of RMI. From March 2004 to November 2007, Mr. Abdi was Senior Vice President and General Manager of Qualcomm CDMA Technologies at Qualcomm, Inc., a provider of integrated circuit products. Prior to Qualcomm, Mr. Abdi held leadership and engineering positions at Motorola in its Semiconductor Products Sector, now Freescale Semiconductor, Inc. His last role at Motorola was Vice President and General Manager for the Radio Products Division from July 1985 to December 2003.

Michael Tate has served as our Vice President of Finance and Chief Financial Officer since July 2007. Prior to joining us, Mr. Tate was interim chief financial officer, vice president, corporate controller, and treasurer at Marvell Technology Group Ltd., a semiconductor integrated circuit company. He joined Marvell in January 2001 as part of Marvell's acquisition of Galileo Technology Ltd. Prior to joining Marvell, from 1997 to 2001, he served in various senior financial management roles at Galileo Technology Ltd., including vice president of finance and chief financial officer. From 1994 to 1997, Mr. Tate held various senior financial management positions at S3 Incorporated. In addition, he served for more than five years at Deloitte & Touche LLP.

Marcia Zander has served as our Senior Vice President of Worldwide Sales since January 2006 and Vice President of Sales since July 1999. Prior to joining us, Ms. Zander was a top performer in semiconductor sales and sales management for QuadRep, Inc., a leading manufacturers representative firm. Before joining QuadRep, Ms. Zander held sales and sales management positions at AVX Corporation and Corning Electronics.

Varadarajan Srinivasan has served as our Vice President of Product Development since March 1996, as our Chief Technical Officer since August 2000. Dr. Varad Srinivasan co-founded us and is the principal designer of a number of our product architectures. Prior to co-founding us, Dr. Srinivasan was director of design at Quality Semiconductor. Before joining Quality in 1989, he designed the world's fastest bipolar PLD at Aspen Semiconductor. Before Aspen, Dr. Srinivasan was a design engineer at IDT, where he was a principal designer of the company's SRAMs, specialty and multi-port memories. He also designed DRAM and SRAM products at Fairchild Semiconductor.

Dimitrios Dimitrelis has served as our Vice President of Engineering since July 2002. From July 1999 to March 2002, Mr. Dimitrelis was Director of Engineering for Vitesse Semiconductor Corp., a communications integrated circuit company, where he was primarily responsible for the development of a 10G network processor. Before joining Vitesse, Dr. Dimitrelis spent 11 years at VLSI Technology where his last assignment was the management of the ARM peripherals development group. In this role, he managed teams responsible for development of ARM peripheral IP components and for the integration of ARM processors into VLSI's product portfolio.

Mozafar Maghsoudnia has served as our Vice President of Worldwide Manufacturing since January 2007, as Vice President of Manufacturing since August 2006, and Director of Technology since June 2003. From June 1988 to June 2003, Mr. Maghsoudnia was employed by Analog Devices, Inc., where he was responsible for wafer fabrication and technology in his last assignment.

Ibrahim Korgav has served as our Senior Vice President of Worldwide Business Operations since January 2007 and as our Senior Vice President of Manufacturing and Business Operations from March 2002 to January 2007. Prior to joining us, Mr. Korgav was a member of venture capital firm Global Catalyst Partners as an entrepreneur-in-residence. Prior to joining Global Catalyst Partners, he was at Zaffire, an optical transport systems company, as senior vice president of operations. Previously, Mr. Korgav was with NeoMagic as vice president of manufacturing operations from its early start-up stage and helped build it into a successful public company with more than $250 million in sales. Before NeoMagic, he co-founded Micro Linear and also worked at Seeq, Synertek, AMD and Siliconix in various manufacturing engineering and operations positions.

Chris O'Reilly has served as our Vice President of Marketing since August 2007. Prior to August 2007, Mr. O'Reilly served as our senior director of marketing, director of sales for the Asia Pacific region and senior marketing manager since 1999. Prior to joining us, Mr. O’Reilly was product marketing manager at Hitachi where he was responsible for the ASIC, microprocessors and microcontrollers product lines.

Roland Cortes has served as our Vice President, General Counsel and Secretary since April 2007. Prior to April 2007, Mr. Cortes served as our Secretary since May 2004, as our Senior Director of Legal Affairs and IP Management since July 2002, and as our Director of Legal Affairs and IP Management since April 1999. From December 1995 to April 1999, Mr. Cortes was an intellectual property attorney with Blakely, Sokoloff, Taylor & Zafman LLP, and from 1989 to 1995 held various engineering positions at semiconductor technology companies in San Jose, California.

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

The following table sets forth the location, and approximate square footage of each of the principal properties used by us during 2010. All properties are leased under operating leases which expire at various times through 2018.

Location	Approximate Square Footage
Santa Clara, California, USA	105,930
Austin, Texas, USA	15,630
Bangalore, India	20,860

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. Removed and Reserved.

Not applicable.

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PART II

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

Market Information for Common Stock

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

	Price Range Per Share	
	High	Low
Fiscal 2010		
Fourth quarter	$34.35	$25.12
Third quarter	$34.50	$22.94
Second quarter	$35.00	$25.29
First quarter	$31.49	$20.40
Fiscal 2009		
Fourth quarter	$24.00	$18.44
Third quarter	$23.40	$16.18
Second quarter	$19.25	$13.39
First quarter	$14.29	$9.84

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

Holders

As of January 31, 2011, there were approximately 111 holders of record (not including beneficial holders of stock held in street names) of our common stock.

Dividend Policy

We have not declared or paid cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. We expect to retain future earnings, if any, to fund the development and growth of our business. Our board of directors will determine future dividends, if any.

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

Securities Authorized for Issuance Under Equity Compensation Plans

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

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Performance Graph

The following graph shows the 5 years cumulative total stockholder return (change in stock price plus reinvested dividends) assuming the investment of $100 on December 31, 2005 in each of the Company's common stock, the S&P 500 Index and the Philadelphia Semiconductor Index. The comparisons in the table are required by the SEC and are not intended to forecast or be indicative of possible future performance of the Company's common stock.

COMPARISON OF 5 YEARS CUMULATIVE TOTAL RETURN
Among NetLogic Microsystems, Inc., the S&P 500 Index
and the Philadelphia Semiconductor Index

	Cumulative Total Returns					
	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
NetLogic Micrsosystems, Inc.	$100.00	$79.66	$118.21	$80.84	$169.82	$230.62
S&P 500 Index	$100.00	$113.62	$117.63	$72.36	$89.33	$100.75
Philadelphia Semiconductor Index	$100.00	$97.40	$85.10	$44.25	$75.06	$85.89

Recent Sales of Unregistered Securities

During the fourth quarter of fiscal 2010, pursuant to the terms of the merger agreement for the RMI acquisition completed in October 30, 2009, we issued 2,400,000 shares of common stock as earn-out consideration to former stockholders of RMI upon the achievement of earn-out milestones for revenues generated from the products acquired from RMI during a 12-month period following the closing date of the acquisition from the products acquired from RMI. No underwriters were involved in the transaction. We issued these shares in a private offering exempt from the registration requirements under section 5 of the Securities Act of 1933 pursuant to Section 4(2) and Rule 506 under Regulation D.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

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

The selected balance sheet data as of December 31, 2010 and 2009 and selected statements of operations data for the years ended December 31, 2010, 2009 and 2008 are derived from our audited financial statements included elsewhere in this report. The selected balance sheet data as of December 31, 2008, 2007 and 2006 and the selected statements of operations data for the years ended December 31, 2007 and 2006 were derived from financial statements not included in this report. Our historical results are not necessarily indicative of our future results. All share and per share amounts presented below have been retroactively adjusted to reflect the 2-for-1 stock split of our common stock that was paid on March 19, 2010 to stockholders of record as of March 5, 2010.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands, except per share data)				
Statements of Operations Data:					
Revenue	$381,745	$174,689	$139,927	$109,033	$96,806
Cost of revenue	173,427	99,251	61,616	44,732	36,762
Gross profit	208,318	75,438	78,311	64,301	60,044
Operating expenses:					
Research and development	127,697	73,631	51,607	45,175	36,578
In-process research and development	-	-	-	1,610	10,700
Selling, general and administrative	78,879	43,931	26,567	19,672	15,455
Change in contingent earn-out liability	71,725	2,008	-	-	-
Acquisition-related costs	735	5,412	-	-	-
Total operating expenses	279,036	124,982	78,174	66,457	62,733
Income (loss) from operations	(70,718)	(49,544)	137	(2,156)	(2,689)
Interest and other income (expense), net:					
Interest income	409	992	1,595	4,431	3,737
Interest expense	(480)	(1,666)	(33)	-	-
Other income (expense), net	(54)	(4)	(59)	32	3
Total interest and other income (expense), net	(125)	(678)	1,503	4,463	3,740
Income (loss) before income taxes	(70,843)	(50,222)	1,640	2,307	1,051
Provision for (benefit from) income taxes	(4,472)	(3,060)	(1,937)	(288)	459
Net income (loss)	$(66,371)	$(47,162)	$3,577	$2,595	$592
Net income (loss) per share - basic	$(1.10)	$(1.02)	$0.08	$0.06	$0.01
Net income (loss) per share - diluted	$(1.10)	$(1.02)	$0.08	$0.06	$0.01
Shares used in calculation - basic	60,426	46,182	42,944	41,494	39,516
Shares used in calculation - diluted	60,426	46,182	44,628	43,876	42,214

	December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Balance Sheet Data:					

Cash and cash equivalents and short-term investments	$256,167	$44,278	$96,541	$50,689	$89,879
Working capital	278,311	67,008	87,853	63,956	95,986
Total assets	712,589	531,872	245,771	203,151	157,769
Software licenses and other obligations	6,547	5,446	1,219	2,528	2,625
Stockholders' equity	618,913	425,955	200,267	171,888	142,524

The selected consolidated financial data presents financial information in the relevant periods for the acquisition of the IDT NSE business in July 2009, the acquisition of RMI Corporation completed in late October 2009, the acquisition of the TCAM2 and TCAM-CR network search engine products and certain related assets from Cypress Semiconductor Corporation in August 2007, the acquisition of Aeluros, Inc. completed in late October 2007, and the acquisition of NSE Business from Cypress Semiconductor Corporation completed in February 2006. See Note 2 of Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K for further discussion of recent acquisitions. The comparability of the data in the table above is also affected by our adoption of various new accounting guidance in the periods presented, specifically, those related to business combinations in 2009 and income taxes in 2007.

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

Overview

We are a leading fabless semiconductor company that designs, develops and sells proprietary high-performance processors and high speed integrated circuits that are used to enhance the performance, functionality and energy efficiency of advanced mobile wireless infrastructure, data center, enterprise, metro Ethernet, edge and core infrastructure networks. Our market-leading product portfolio includes high-performance multi-core communications processors, knowledge-based processors, high-speed 10/40/100 Gigabit Ethernet physical layer devices, network search engines, and ultra low-power embedded processors. These products are designed into high-performance systems such as switches, routers, wireless base stations, access aggregation, radio network controllers, security appliances, networked storage appliances, service gateways and connected media devices offered by leading original equipment manufacturers (OEMs) such as Alcatel-Lucent, Brocade Communications Systems, Cisco Systems, Dell Inc., Ericsson, Finisar Corporation, Hewlett-Packard, Huawei Technologies Co. Ltd, Juniper Networks, Inc., McAfee, Inc., Motorola, Inc., Nokia Siemens Networks, Tellabs, Inc., and ZTE Corporation.

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

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

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

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

As a fabless semiconductor company, our business is less capital intensive than others because we rely on third parties to manufacture, assemble, and test our products. In general, we do not anticipate making significant capital expenditures aside from business acquisitions that we might make from time to time. In the future, as we launch new

products or expand our operations, however, we may require additional funds to procure product mask sets, order elevated quantities of wafers from our foundry partners, perform qualification testing and assemble and test those products.

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

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Recent Acquisitions

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

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

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

Our results of operations for the year ended December 31, 2008 and 2009 did not include revenues and costs associated with the RMI and IDT NSE acquisitions prior to their respective acquisition dates of October 30, 2009 and July 17, 2009 whereas the results of operations in 2010 reflect revenues and costs attributable to the combined company and consequently are substantially higher than the results in 2008 and 2009.

Outlook and Challenges

Our year-over-year net revenue increased from $174.7 million for the year ended December 31, 2009 to $381.7 million for the year ended December 31, 2010 as a result of our RMI and IDT acquisitions, and also due the improved demand of all of our products due to the continued growth for demand of products that enable the build out of the wireless Internet infrastructure. In order to support our growing business operations we increased our worldwide hiring by adding 95 new employees and improving our processes and systems related to our management information and enterprise resource planning systems to keep in pace with our breadth and scale of business while maintaining regulatory compliance. Our integration of the IDT NSE business and RMI included the continued assimilation of employees, retention of key personnel and existing customers, and acquitision of new customers.

Our product revenue is concentrated among a small number of large customers. For the year ended December 31, 2010, our top five customers in terms of revenue accounted for approximately 58% of total product revenue. Although we believe our revenues will continue to be concentrated among our largest customers, because of concentration in the networking equipment business, we expect that continued favorable market trends, such as the increasing number of 10 Gigabit ports as enterprises and datacenters upgrade their legacy networks to better accommodate the proliferation of video and virtualization applications, and the growing mobile wireless infrastructure and IPTV markets, will enable us to broaden our customer base. Additionally, our expanding product portfolio will also help us further diversify our customer and product revenues as well as expand our offerings to our existing customers.

For 2010, 30% of our product revenue was realized through inventory, or “hubbing”, arrangements with certain customers, including our largest customer, Cisco and its supplier, Wintec Industries. We expect more of our larger customers to adopt these hubbing arrangements in the future. Pursuant to these arrangements, we deliver products to a

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

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Critical Accounting Policies and Estimates

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

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

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

We generally recognize revenue at the time of shipment to OEM customers and their contract manufacturers and our international sales representatives. Product revenue and costs relating to sales made through distributors with rights of return and price credits are deferred until the distributors sell the product to end customers because the selling price is not fixed and determinable and we are not able to estimate future returns. Revenue recognition depends on notification from the distributor that product has been sold to an end customers. On each reporting date we record a reduction in accounts receivable and deferred revenue based on our estimate of the margin to be ultimately recognized upon sale of the product to end customers.

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

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

Inventory Valuation and Adverse Purchase Commitments. We value our inventories at the lower of cost or market. We record inventory reserves for estimated obsolescence or unmarketable inventories based upon assumptions about

future demand and market conditions. These estimates are generally based on a 12-month forecast prepared by management. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of. If actual market conditions are less favorable than those expected by management, additional adjustment to inventory valuation may be required. The carrying value of inventory and the determination of possible adverse purchase commitments are dependent on our estimate of the yield that will be achieved, or the percent of good products identified when the product is tested.

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

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

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

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

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

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

other-than-temporary.

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

Goodwill. Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired and liabilities assumed. We evaluate goodwill for impairment at least on an annual basis or whenever events and changes in circumstances suggest that the carrying amount may not be recoverable from its estimated future cash flow. We perform goodwill impairment test for each reporting unit. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired. We perform our goodwill impairment assessment at the Company level, which is our sole reporting unit. We performed our annual goodwill impairment test in the fourth quarter and concluded there was no impairment of goodwill during the years ended December 31, 2010, 2009 and 2008.

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

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Results of Operations

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

Revenue, cost of revenue and gross profit

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

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

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

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

intangible assets and fair value adjustments related to acquired inventory, and a favorable change in product mix.

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Operating expenses

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

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

Research and Development Expenses. Research and development expenses increased during the year ended December 31, 2010, as compared with the same period in 2009, primarily due to increases in payroll and payroll related expenses of $20.8 million, stock-based compensation expenses of $4.2 million, infrastructure expenses of $5.1 million, product development and qualification expenses of $9.4 million, software licenses expenses of $3.8 million, consulting services of $6.0 million, depreciation expenses of $3.4 million, and travel expenses of $1.0 million. The increase in payroll and payroll related expenses, infrastructure expenses, travel expenses and stock-based compensation expenses was primarily due to increases in engineering headcount to support our new product development efforts, and as a result of the RMI acquisition in October 2009. The increase in product development and qualification expense, and consulting services was primarily due to the production qualification and characterization of new products submitted for tape-out. The increase in software licenses expenses and depreciation expenses was primarily due to increased activity levels in research and development projects. The remainder of the increase in research and development expenses was caused by individually minor items. We expect the amount of research and development expenses to increase in total and may increase as a percentage of revenues in 2011 due to additional hiring, training and systems support for the development of new products and improvement of existing products.

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

expenses was caused by individually minor items We expect that selling, general and administrative expenses to will increase in dollar amount and may increase as a percentage of revenues in 2011 because we expect to continue to invest in hiring and training additional employees and making other additional investments required to support our growing sales and marketing activities resulting from our expanded product portfolio.

Change in contingent earn-out liability. The change in contingent earn-out liability payable to the former holders of RMI capital stock was due to an increase in the market price of our common stock as well as the actual achievement of revenue earn-out target of approximately 95.3% at October 31, 2010, compared to our stock price and our estimated earn-our achievement of approximately 80% at December 31, 2009. The total earn-out payment for the RMI acquisition was accrued and paid in 2010 and will not recur in 2011. There may be similar charges in 2011 if we complete any acquisitions that involve deferred, contingent payments of this nature, however.

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

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Other items

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

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

Interest Income. Interest income decreased during the year ended December 31, 2010, as compared with fiscal 2009, primarily due to the absence of interest income from an RMI bridge loan which was extinguished in October 2009.

Interest Expense. Interest expense decreased during the year ended December 31, 2010, as compared with fiscal 2009, primarily due to the absence of interest costs associated with servicing outstanding line of credit and term notes during 2009. The line of credit and term notes were fully repaid in December 2009.

Other Income (Expense), net. Other income and (expense), net during the year ended December 31, 2010 did not fluctuate significantly from fiscal 2009.

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

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

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Results of Operations

Comparison of Year Ended December 31, 2009 to Year Ended December 31, 2008

Revenue, cost of revenue and gross profit

The table below sets forth the fluctuations in revenue, cost of revenue and gross profit data for the years ended December 31, 2009 and 2008 (in thousands, except percentage data):

	Year ended December 31, 2009	Percentage of Revenue	Year ended December 31, 2008	Percentage of Revenue	Year-to-Year Change	Percentage Change
Revenue	$174,689	100.0 %	$139,927	100.0 %	$ 34,762	24.8 %