Navios Maritime Holdings Inc.
Form 6-K
May 25, 2011

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF THE
SECURITIES EXCHANGE ACT OF 1934
Dated: May 25, 2011
Commission File No. 001-33311
NAVIOS MARITIME HOLDINGS INC.
85 Akti Miaouli Street, Piraeus, Greece 185 38
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F:

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(l):

Yes o No þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes o No þ

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

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The information contained in this Report is hereby incorporated by reference into the Registration Statements on Form F-3, File Nos. 333-136936 and 333-165754 and on Form S-8, File No. 333-147186.

Operating and Financial Review and Prospects

The following is a discussion of the financial condition and results of operations of Navios Maritime Holdings Inc. (Navios Holdings or the Company) for the three month periods ended March 31, 2011 and 2010. Navios Holdings financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP). You should read this section together with the consolidated financial statements and the accompanying notes included in Navios Holdings 2010 annual report on Form 20-F filed with the Securities and Exchange Commission and the condensed consolidated financial statements and the accompanying notes included elsewhere in this form 6-K.

This report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Reform Act of 1995. These forward looking statements are based on Navios Holdings current expectations and observations. Included among the factors that, in management s view, could cause actual results to differ materially from the forward-looking statements contained in this report are changes in any of the following: (i) charter demand and/or charter rates; (ii) production or demand for the types of drybulk products that are transported by Navios Holdings vessels; (iii) operating costs including but not limited to changes in crew salaries, insurance, provisions, repairs, maintenance and overhead expenses; or (iv) changes in interest rates. Other factors that might cause a difference include, but are not limited to, those discussed under Part I, Item 3D Risk Factors in Navios Holdings 2010 annual report on Form 20-F.

Recent Developments

Navios Maritime Holdings Inc.

Vessel Sales

On May 19, 2011, Navios Holdings sold the Navios Luz, a 2010 built Capesize vessel of 179,144 deadweight tons (dwt), and the Navios Orbiter, a 2004 built Panamax vessel of 76,602 dwt, to Navios Maritime Partners L.P. (Navios Partners) for a total consideration of $130.0 million, of which $120.0 million is payable in cash and $10.0 million in newly issued common units of Navios Partners. A portion of the cash proceeds amounting to $57.7 million was used to fully repay the outstanding loans associated with the vessels.

Deconsolidation of Navios Acquisition

Navios Holdings exchanged 7,676,000 shares of Navios Maritime Acquisition Corporation (Navios Acquisition) common stock it held for 1,000 shares of non-voting Series C preferred stock of Navios Acquisition pursuant to an Exchange Agreement entered into on March 30, 2011 between Navios Acquisition and Navios Holdings (Navios Acquisition Share Exchange). The fair value of the exchange was $30.5 million. Following the Navios Acquisition Share Exchange, Navios Holdings has 45% of the voting power and 53.7% of the economic interest in Navios Acquisition. As a result, from March 30, 2011, Navios Acquisition is considered as an affiliate entity of Navios Holdings and is not a controlled subsidiary of the Company, and the investment in Navios Acquisition is now accounted for under the equity method due to the Company s significant influence over Navios Acquisition. From March 30, 2011, Navios Acquisition is being accounted for under the equity method based on Navios Holdings 53.7% economic interest since the preferred stock is considered in substance common stock for accounting purposes.

Dividend Policy

On May 17, 2011, the Board of Directors declared a quarterly cash dividend for the first quarter of 2011 of $0.06 per share of common stock. This dividend is payable on July 7, 2011 to stockholders of record on June 15, 2011. The declaration and payment of any further dividends remain subject to the discretion of the Board, and will depend on, among other things, Navios Holdings cash requirements as measured by market opportunities, debt obligations and restrictions under its credit and other debt agreements.

Navios Partners

On April 13, 2011, Navios Partners completed a public offering of 4,600,000 common units, which included the full exercise of the underwriters over-allotment option, at $19.68 per unit, raising gross proceeds of approximately $90.5 million. Following the offering and the issuance of common units in connection with the sale of the Navios Luz and the Navios Orbiter, Navios Holdings interest in Navios Partners is currently 27.1% (including the 2% GP interest).

On May 11, 2011, Navios Holdings received $6.2 million as a dividend distribution from its affiliate Navios Partners.

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Navios Logistics

Acquisition of pushboats

On April 15, 2011, Navios South American Logistics Inc. (Navios Logistics) used a portion of the proceeds of the senior unsecured notes (the Logistics Senior Notes), to pay $8.7 million for the acquisition and upgrading of two pushboats named William Hank and Lonny Fugate and, on May 2, 2011, Navios Logistics used a portion of such proceeds to pay $0.6 million, representing a deposit on the purchase price, for the acquisition of the pushboat WW Dyer.

$200.0 million 9.25% Senior Notes Due 2019

On April 12, 2011, Navios Logistics issued $200.0 million Logistics Senior Notes due on April 15, 2019, at a fixed rate of 9.25%. The net proceeds from the Logistics Senior Notes were approximately $194.0 million, after deducting related fees and estimated expenses, and will be used to (i) purchase barges and pushboats; (ii) repay existing indebtedness; and (iii) to the extent available, for general corporate purposes. On April 12, 2011, Navios Logistics, using the proceeds from the Logistics Senior Notes, fully repaid its $70.0 million loan facility with Marfin Popular Bank.

Changes in Capital Structure

Issuance of Common Stock: During the three month period ended March 31, 2011, 8,001 shares of restricted common stock were forfeited upon termination of employment. On March 1, March 2 and March 7, 2011, 18,281, 29,250 and 68,047 shares, respectively, were issued following the exercise of the options for cash at an exercise price of $3.18 per share.

Following the issuances and cancellations of the shares, described above, Navios Holdings had outstanding as of March 31, 2011, 101,671,343 shares of common stock and 8,479 shares of Preferred Stock outstanding.

Overview

General

Navios Holdings is a global, vertically integrated seaborne shipping and logistics company focused on the transport and transshipment of drybulk commodities, including iron ore, coal and grain. We technically and commercially manage our owned fleet, Navios Acquisition s fleet and Navios Partners fleet, and commercially manage our chartered-in fleet. Navios Holdings has in-house ship management expertise that allows it to oversee every step of technical management of the owned fleet, Navios Partners and Navios Acquisition s fleet including the shipping operations throughout the life of the vessels and the superintendence of maintenance, repairs and drydocking.

On August 25, 2005, pursuant to a Stock Purchase Agreement dated February 28, 2005, as amended, by and among International Shipping Enterprises, Inc (ISE), Navios Holdings and all the shareholders of Navios Holdings, ISE acquired Navios Holdings through the purchase of all of the outstanding shares of common stock of Navios Holdings. As a result of this acquisition, Navios Holdings became a wholly owned subsidiary of ISE. In addition, on August 25, 2005, simultaneously with the acquisition of Navios Holdings, ISE effected a reincorporation from the State of Delaware to the Republic of the Marshall Islands through a downstream merger with and into its newly acquired wholly owned subsidiary, whose name was and continues to be Navios Maritime Holdings Inc.

On February 2, 2007, Navios Holdings acquired all of the outstanding share capital of Kleimar N.V. for a cash consideration of $165.6 million (excluding direct acquisition costs), subject to certain adjustments. Kleimar is a Belgian maritime transportation company established in 1993. Kleimar is the owner and operator of Handymax, Capesize and Panamax vessels used in the transportation of cargoes and has an extensive contract of affreightment (COA) business.

On August 7, 2007, Navios Holdings formed Navios Partners under the laws of Marshall Islands. Navios G.P. L.L.C. (General Partner), a wholly owned subsidiary of Navios Holdings, was also formed on that date to act as the general partner of Navios Partners and received a 2% general partner interest in Navios Partners. Navios Partners is an affiliate and is not consolidated under Navios Holdings.

Navios Logistics

On January 1, 2008, pursuant to a share purchase agreement, Navios Holdings contributed: (i) $112.2 million in cash; and (ii) the authorized capital stock of its wholly owned subsidiary Corporation Navios Sociedad Anonima (CNSA) in exchange for the issuance and delivery of 12,765 shares of Navios Logistics, representing 63.8% (or

67.2% excluding contingent consideration) of its outstanding stock. Navios Logistics acquired all ownership interests in Horamar in exchange for: (i) $112.2 million in cash, of which $5.0 million was kept in escrow, payable upon the attainment of certain EBITDA targets during specified periods through December 2008 (the EBITDA Adjustment); and (ii) the issuance of 7,235 shares of Navios Logistics representing 36.2% (or 32.8% excluding contingent consideration) of Navios Logistics outstanding stock, of which 1,007 shares were held in escrow pending attainment of certain EBITDA targets. In November 2008, $2.5 million in cash and 503 shares were released from escrow when Horamar achieved the interim EBITDA target.

On March 20, 2009, August 19, 2009, and December 30, 2009, the agreement pursuant to which Navios Logistics acquired CNSA and Horamar was amended to postpone until June 30, 2010 the date for determining whether the EBITDA target was achieved. On June 17, 2010, $2.5 million in cash and the 504 shares remaining in escrow were released from escrow upon the achievement of the EBITDA target threshold. Navios Holdings currently owns 63.8% of Navios Logistics.

Navios Logistics is one of the largest logistics companies in the Hidrovia region of South America, serving the storage and marine transportation needs of its customers through its port terminals, river barge and coastal cabotage operations.

For a more detailed discussion about the Navios Logistics segment, please see Exhibit 99.1 to this Form 6-K.

Navios Acquisition

On July 1, 2008, the Company completed the initial public offering (IPO), of its subsidiary, Navios Acquisition. At the time of the IPO, Navios Acquisition was a blank check company. In the offering, Navios Acquisition sold 25,300,000 units for an aggregate purchase price of $253.0 million. Simultaneously with the completion of the IPO, the Company purchased private placement warrants of Navios Acquisition for an aggregate purchase price of $7.6 million (Private Placement Warrants). Prior to the IPO, Navios Holdings had purchased 8,625,000 units (Sponsor Units) for a total consideration of $25,000, of which an aggregate of 290,000 units were transferred to the Company s officers and directors and an aggregate of 2,300,000 Sponsor Units were returned to Navios Acquisition and cancelled upon receipt. Each unit consisted of one share of Navios Acquisition s common stock and one warrant (Sponsor Warrants, together with the Private Placement Warrants, the Navios Acquisition Warrants). Navios Acquisition, at the time, was not a controlled subsidiary of the Company but was accounted for under the equity method due to the Company s significant influence over Navios Acquisition.

On May 25, 2010, after its special meeting of stockholders, Navios Acquisition announced the approval of (a) the acquisition of 13 vessels (11 product tankers and two chemical tankers plus options to purchase two additional product tankers) for an aggregate purchase price of $457.7 million, of which $128.7 million was paid from existing cash and the $329.0 million balance was paid with existing and new financing pursuant to the terms and conditions of the Acquisition Agreement by and between Navios Acquisition and Navios Holdings and (b) certain amendments to Navios Acquisition s amended and restated articles of incorporation.

Navios Holdings has purchased 6,337,551 shares of Navios Acquisition s common stock for $63.2 million in open market purchases. Moreover, on May 28, 2010, certain shareholders of Navios Acquisition redeemed 10,021,399 shares pursuant to redemption rights granted in the IPO upon de- SPAC -ing. As of May 28, 2010, following these transactions, Navios Holdings owned 12,372,551 shares, or 57.3%, of the outstanding common stock of Navios Acquisition. On that date, Navios Holdings acquired control over Navios Acquisition, and consequently concluded a business combination had occurred and consolidated the results of Navios Acquisition from that date until March 30, 2011.

On March 30, 2011, Navios Holdings completed the Navios Acquisition Share Exchange whereby Navios Holdings exchanged 7,676,000 shares of Navios Acquisition s common stock it held for non-voting Series C preferred stock of Navios Acquisition pursuant to an Exchange Agreement entered into on March 30, 2011 between Navios Acquisition and Navios Holdings. The fair value of the exchange was $30.5 million, which was based on the share price of the publicly traded common shares of Navios Acquisition on March 30, 2011. Following the Navios Acquisition Share Exchange, Navios Holdings ownership of the outstanding voting stock of Navios Acquisition decreased to 45% and Navios Holdings no longer controls a majority of the voting power of Navios Acquisition. From that date onwards, Navios Acquisition is considered as an affiliate entity of Navios Holdings and is not a controlled subsidiary of the Company, and the investment in Navios Acquisition is now accounted for under the equity method due to the Company s significant influence over Navios Acquisition. Navios Acquisition will be accounted for under the equity method of accounting based on Navios Holdings 53.7% economic interest in Navios Acquisition, since the preferred stock is considered in-substance common stock for accounting purposes.

On March 30, 2011, based on the equity method, the Company recorded an investment in Navios Acquisition of $103.3 million, which represents the fair value of the common stock and Series C preferred stock that was held by Navios Holdings on such date. On March 30, 2011, the Company calculated a loss on change in control of $35.3 million, which is equal to the fair value of the Company s investment in Navios Acquisition of $103.3 million less the Company s 53.7% interest in Navios Acquisition s net assets on March 30, 2011.

Navios Acquisition is an owner and operator of tanker vessels focusing in the transportation of petroleum products (clean and dirty) and bulk liquid chemicals.

Fleet

The following is the current core fleet employment profile (excluding Navios Logistics), including the newbuilds to be delivered, as of May 23, 2011. The current core fleet consists of 55 vessels totaling 5.8 million dwt. The 42 vessels in current operation aggregate approximately 4.6 million dwt and have an average age of 4.9 years. Navios Holdings has currently fixed 92.2%, 58.0% and 39.0% of its 2011, 2012 and 2013 available days, respectively, of its fleet (excluding vessels which are utilized to fulfill COAs), representing contracted fees (net of commissions), based on contracted charter rates from its current charter agreements of $304.9 million, $216.7 million and $168.9 million, respectively. Although these fees are based on contractual charter rates, any contract is subject to performance by the counterparties and us. Additionally, the level of these fees would decrease depending on the vessels off-hire days to perform periodic maintenance. The average contractual daily charter-out rate for the core fleet (excluding vessels which are utilized to fulfill COAs) is $26,383, $29,017 and $32,402 for 2011, 2012 and 2013, respectively. The average daily charter-in rate for the active long-term charter-in vessels (excluding vessels which are utilized to fulfill COAs) for 2011 is estimated at $10,741.

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Owned Vessels

Vessels	Type	Built	DWT	Charter-out Rate[1]	Profit Share[5]	Expiration Date[2]
Navios Ionian	Ultra Handymax	2000	52,067	13,775	No	05/27/2011
				13,685	No	09/24/2012
Navios Celestial	Ultra Handymax	2009	58,063	17,550	No	01/24/2012
Navios Vector	Ultra Handymax	2002	50,296	14,725	No	12/27/2011
Navios Horizon	Ultra Handymax	2001	50,346	36,100	No	08/31/2011
Navios Herakles	Ultra Handymax	2001	52,061	16,150	No	07/02/2011
Navios Achilles	Ultra Handymax	2001	52,063	25,521(7)	65%/$20,000 after March 2012	12/17/2013
Navios Meridian	Ultra Handymax	2002	50,316	14,250	No	03/17/2012
Navios Mercator	Ultra Handymax	2002	53,553	21,660(7)		08/01/2011
				29,783(7)	65%/$20,000 after March 2012	01/12/2015
Navios Arc	Ultra Handymax	2003	53,514	14,725	No	09/13/2011
Navios Hios	Ultra Handymax	2003	55,180	13,300	No	09/21/2011
Navios Kypros	Ultra Handymax	2003	55,222	20,778	50%/$19,000	01/28/2014
Navios Ulysses	Ultra Handymax	2007	55,728	31,281	No	10/12/2013
Navios Vega	Ultra Handymax	2009	58,792	14,725	No	05/21/2011
				15,631	No	05/26/2013
Navios Astra	Ultra Handymax	2006	53,468	15,533	No	12/11/2011
Navios Magellan	Panamax	2000	74,333	22,800	No	03/26/2012
Navios Star	Panamax	2002	76,662	16,958	No	11/27/2012
Navios Asteriks	Panamax	2005	76,801			
Navios Bonavis	Capesize	2009	180,022	47,400	No	06/29/2014
Navios Happiness	Capesize	2009	180,022	52,345(7)	50%/$32,000 after March 2012	07/24/2014
Navios Lumen	Capesize	2009	180,661	19,500(6)	Yes	08/14/2011
				29,250(6)	Yes	02/14/2012
				39,830(6)	Yes	12/10/2012
				43,193(6)	Yes	12/10/2013
				42,690(6)	Yes	12/10/2016
				39,305(6)	Yes	12/10/2017
Navios Stellar	Capesize	2009	169,001	36,974(9)	No	12/22/2016

Navios Phoenix	Capesize	2009	180,242	27,075	No	12/10/2011(8)
Navios Antares	Capesize	2010	169,059	37,590(9)	No	01/19/2015
				45,875(9)	No	01/19/2018
Navios Buena Ventura	Capesize	2010	179,132	29,356	50%/38,500	10/28/2020
Navios Etoile	Capesize	2010	179,234	29,356	50%/ in excess of 38,500	12/02/2020
Navios Bonheur	Capesize	2010	179,259	27,888(7)	50% $32,000 after March 2012	12/16/2013
				25,025(7)		12/16/2022
Navios Altamira	Capesize	01/2011	179,165	24,674	No	01/27/2021
Navios Azimuth	Capesize	02/2011	179,169	26,469(7)	50%/$34,500 after March 2012	02/13/2023

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Long-term Chartered-in Vessels

Vessels	Type	Built	DWT	Purchase Option[3]	Charter-out Rate[1]	Expiration Date[2]
Navios Primavera	Ultra Handymax	2007	53,464	Yes	14,919	10/06/2011
Navios Armonia	Ultra Handymax	2008	55,100	No	12,350	06/08/2011
Navios Orion	Panamax	2005	76,602	No	49,400	12/14/2012
Navios Titan	Panamax	2005	82,936	No	19,000	11/22/2012
Navios Altair	Panamax	2006	83,001	No	19,238	11/23/2011
Navios Esperanza	Panamax	2007	75,200	No	14,513	02/19/2013
Torm Antwerp	Panamax	2008	75,250	No		
Golden Heiwa	Panamax	2007	76,662	No		
Beaufiks	Capesize	2004	180,181	Yes		
Rubena N	Capesize	2006	203,233	No		
SC Lotta	Capesize	2009	170,500	No		
Formosabulk Brave	Capesize	2001	170,000	No		
Phoenix Beauty	Capesize	2010	169,150	No		
King Ore	Capesize	2010	176,800	No		

Vessels to be Delivered

Vessels	Type	Delivery Date	Purchase Option	DWT
Navios Serenity	Handysize	05/2011	Yes(4)	34,718
Navios TBN	Handysize	09/2012	Yes(4)	34,718
Navios Koyo	Capesize	12/2011	Yes	181,000
Kleimar TBN	Capesize	07/2012	Yes	180,000
Navios TBN	Capesize	12/2013	Yes	180,000
Navios TBN	Ultra Handymax	04/2012	Yes	61,000
Navios TBN	Ultra Handymax	05/2013	Yes	61,000
Navios TBN	Ultra Handymax	10/2013	Yes	61,000
Navios Marco Polo	Panamax	09/2011	Yes	80,000
Navios TBN	Panamax	01/2013	Yes	82,100
Navios TBN	Panamax	07/2013	Yes(4)	80,500
Navios TBN	Panamax	09/2013	Yes(4)	80,500
Navios TBN	Panamax	11/2013	Yes(4)	80,500

(1) Daily rate net of commissions.

(2) Expected redelivery basis midpoint of full redelivery period.

(3) Generally, Navios Holdings may exercise its purchase option after three to five years of service.

(4) Navios Holdings holds the initial 50% purchase option on each vessel.

(5) Profit share based on applicable Baltic TC Average exceeding $/day rates listed.

(6) Year eight optional (option to Navios Holdings) included in the table above. Profit sharing = 100% to Navios Holdings until net daily rate of $44,850 and becomes 50/50 thereafter.

(7) Amount represents daily net rate of insurance proceeds following the default of the original charterer. The contracts for these vessels have been temporarily suspended and the vessels have been re-chartered to third parties for variable charter periods. Upon completion of the suspension period, the contracts with the original charterers will resume at amended terms. The obligations of our insurers are reduced by an amount equal to the mitigation charter hire revenues earned under the contracts with third parties and/or the original charterer or the applicable deductibles for any idle periods. The Company has filed claims for all unpaid amounts by the original charterer in respect of the employment of the vessels in the corporate rehabilitation proceedings. The disposition of these claims will be determined by the court at a future date.

(8) Subject to COA of $45,500 per day for the remaining period until first quarter of 2015.

(9) Amount represents daily rate of insurance proceeds following the default of the original charterer. These vessels have been rechartered to third parties for variable charter periods. Obligations of the insurer are reduced by an amount equal to the mitigation charter hire revenues earned under these contracts and the applicable deductibles under the insurance policy.

Charter Policy and Industry Outlook

Navios Holdings policy has been to take a portfolio approach to managing operating risks. This policy led Navios Holdings to time charter-out many of the vessels that it is presently operating (i.e., vessels owned by Navios Holdings or which it has taken into its fleet under charters having a duration of more than 12 months) for periods up to 12 years to various shipping industry counterparties considered by Navios Holdings to have appropriate credit profiles. By doing this, Navios Holdings aims to lock in, subject to credit and operating risks, favorable forward cash flows which it believes will cushion it against unfavorable market conditions. In addition, Navios Holdings trades additional vessels taken in on shorter term charters of less than 12 months duration as well as voyage charters or COAs and forward freight agreements (FFAs).

In 2008 and 2009, this policy had the effect of generating Time Charter Equivalents (TCE) that, while high by the average historical levels of the drybulk freight market over the last 30 years, were below those which could have been earned had the Navios Holdings fleet been operated purely on short-term and/or spot employment. In 2010 and during first quarter of 2011, this chartering policy had the effect of generating TCE which were higher than spot employment.

The average daily charter-in vessel cost for the Navios Holdings long-term charter-in fleet (excluding vessels, which are utilized to serve voyage charters or COAs) was $10,262 per day for the three month period ended March 31, 2011. The average long-term charter-in hire rate per vessel is included in the amount of long-term hire included elsewhere in this document and was computed by (a) multiplying (i) the daily charter-in rate for each vessel by (ii) the number of days the vessel is in operation for the year and (b) dividing such product by the total number of vessel days for the year. These rates exclude gains and losses from FFAs. Furthermore, Navios Holdings has the ability to increase its owned fleet through purchase options at favorable prices relative to the current market exercisable in the future.

Navios Holdings believes that a decrease in global commodity demand from its current level, and the delivery of drybulk carrier new buildings into the world fleet, could have an adverse impact on future revenue and profitability. However, the operating cost advantage of Navios Holdings owned vessels and long-term chartered fleet, which is chartered-in at favorable rates, will continue to help mitigate the impact of the current decline in freight rates. A reduced freight rate environment may also have an adverse impact on the value of Navios Holdings owned fleet and any purchase options that are currently in the money. In reaction to a decline in freight rates, available ship financing has also been negatively impacted.

Navios Holdings currently owns 63.8% of Navios Logistics. Navios Logistics owns and operates vessels, barges and push boats located mainly in Argentina, the largest bulk transfer and storage port facility in Uruguay, and an upriver liquid port facility located in Paraguay. Operating results for Navios Logistics are highly correlated to: (i) South American grain production and export, in particular Argentinean, Brazilian, Paraguayan, Uruguayan and Bolivian production and export; (ii) South American iron ore production and export, mainly from Brazil; and (iii) sales (and logistic services) of petroleum products in the Paraguayan market. Navios Holdings believes that the continuing development of these businesses will foster throughput growth and therefore increase revenues at Navios Logistics. Should this development be delayed, grain harvests be reduced, or the market experience an overall decrease in the demand for grain or iron ore, the operations in Navios Logistics would be adversely affected.

From March 30, 2011, Navios Acquisition is accounted for under the equity method due to the Company s significant influence over Navios Acquisition. Navios Acquisition owns a large fleet of modern crude oil, refined petroleum product and chemical tankers providing world-wide marine transportation services. Navios Acquisition strategy is to charter its vessels to international oil companies, refiners and large vessel operators under long, medium and short-term charters. Navios Acquisition is committed to providing quality transportation services and developing and maintaining long-term relationships with its customers. Navios Acquisition believes that the Navios brand will allow it to take advantage of increasing global environmental concerns that have created a demand in the petroleum products/crude oil seaborne transportation industry for vessels and operators that are able to conform to the stringent environmental standards currently being imposed throughout the world.

Factors Affecting Navios Holdings Results of Operations

We believe the principal factors that will affect our future results of operations are the economic, regulatory, political and governmental conditions that affect the shipping industry generally and that affect conditions in *countries and markets in which our vessels engage in business. Please read Risk Factors included in Navios Holdings 2010 annual report on Form 20-F filed with the Securities and Exchange Commission for a discussion of certain risks inherent in our business.*

Navios Holdings actively manages the risk in its operations by: (i) operating the vessels in its fleet in accordance with all applicable international standards of safety and technical ship management; (ii) enhancing vessel utilization and profitability through an appropriate mix of long-term charters complemented by spot charters (time charters for short term employment) and voyage charter or COAs; (iii) monitoring the financial impact of corporate exposure from both physical and FFAs transactions; (iv) monitoring market and counterparty credit risk limits; (v) adhering to risk management and operation policies and procedures; and (vi) requiring counterparty credit approvals.

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Navios Holdings believes that the important measures for analyzing trends in its results of operations consist of the following:

Market Exposure: Navios Holdings manages the size and composition of its fleet by chartering and owning vessels in order to adjust to anticipated changes in market rates. Navios Holdings aims to achieve an appropriate balance between owned vessels and long and short term chartered-in vessels and controls approximately 6.0 million dwt in drybulk tonnage. Navios Holdings options to extend the charter duration of vessels it has under long-term time charter (durations of over 12 months) and its purchase options on chartered vessels permit Navios Holdings to adjust the cost and the fleet size to correspond to market conditions.

Available days: Available days is the total number of days a vessel is controlled by a company less the aggregate number of days that the vessel is off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

Operating days: Operating days is the number of available days in a period less the aggregate number of days that the vessels are off-hire due to any reason, including lack of demand or unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.

Fleet utilization: Fleet utilization is obtained by dividing the number of operating days during a period by the number of available days during the period. The shipping industry uses fleet utilization to measure a company s efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning.

TCE rates: TCE rates are defined as voyage and time charter revenues less voyage expenses during a period divided by the number of available days during the period. The TCE rate is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts, while charter hire rates for vessels on time charters generally are expressed in such amounts.

Equivalent vessels: Equivalent vessels data is the available days of the fleet divided by the number of the calendar days in the period.

Voyage and Time Charter

Revenues are driven primarily by the number of vessels in the fleet, the number of days during which such vessels operate and the amount of daily charter hire rates that the vessels earn under charters, which, in turn, are affected by a number of factors, including:

the duration of the charters;

the level of spot market rates at the time of charters;

decisions relating to vessel acquisitions and disposals;

the amount of time spent positioning vessels;

the amount of time that vessels spend in drydock undergoing repairs and upgrades;

the age, condition and specifications of the vessels; and

the aggregate level of supply and demand in the drybulk shipping industry.

Time charters are available for varying periods, ranging from a single trip (spot charter) to a long-term period which may be many years. In general, a long-term time charter assures the vessel owner of a consistent stream of revenue. Operating the vessel in the spot market affords the owner greater spot market opportunity, which may result in high rates when vessels are in high demand or low rates when vessel availability exceeds demand. Vessel charter rates are affected by world economics, international events, weather conditions, strikes, governmental policies, supply and demand, and many other factors that might be beyond the control of management.

Consistent with industry practice, Navios Holdings uses TCE rates, which consist of revenue from vessels operating on time charters and voyage revenue less voyage expenses from vessels operating on voyage charters in the spot market, as a method of analyzing fluctuations between financial periods and as a method of equating revenue generated from a voyage charter to time charter revenue.

TCE revenue also serves as industry standard for measuring revenue and comparing results between geographical regions and among competitors.

The cost to maintain and operate a vessel increases with the age of the vessel. Older vessels are less fuel efficient, cost more to insure and require upgrades from time to time to comply with new regulations. The average age of Navios Holdings owned Core Fleet is 4.9 years. However, as such fleet ages or if Navios Holdings expands its fleet by acquiring previously owned and older vessels, the cost per vessel would be expected to rise and, assuming all else, including rates, remains constant, vessel profitability would be expected to decrease.

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Spot Charters, Contracts of Affreightment (COAs), and Forward Freight Agreements (FFAs)

Navios Holdings enhances vessel utilization and profitability through a mix of voyage charters, short-term charter-out contracts, COAs and strategic backhaul cargo contracts.

Navios Holdings enters into drybulk shipping FFAs as economic hedges relating to identifiable ship and/or cargo positions and as economic hedges of transactions the Company expects to carry out in the normal course of its shipping business. By utilizing certain derivative instruments, including drybulk shipping FFAs, the Company manages the financial risk associated with fluctuating market conditions. In entering into these contracts, the Company has assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts.

As of March 31, 2011 and December 31, 2010, none of Navios Holdings FFAs qualified for hedge accounting treatment. Drybulk FFAs traded by Navios Holdings that do not qualify for hedge accounting are shown at fair value in the balance sheet and changes in fair value are recorded in the statement of operations.

FFAs cover periods generally ranging from one month to one year and are based on time charter rates or freight rates on specific quoted routes. FFAs are executed either over-the-counter, between two parties, or through NOS ASA, a Norwegian clearing house, and LCH, the London clearing house. FFAs are settled in cash monthly based on publicly quoted indices.

NOS ASA and LCH call for both base and margin collaterals, which are funded by Navios Holdings, and which in turn substantially eliminates counterparty risk. Certain portions of these collateral funds may be restricted at any given time as determined by NOS ASA and LCH.

At the end of each calendar quarter, the fair value of drybulk shipping FFAs traded over-the-counter are determined from an index published in London, United Kingdom and the fair value of those FFAs traded with NOS ASA and LCH are determined from the NOS ASA and LCH valuations accordingly. Navios Holdings has implemented specific procedures designed to respond to credit risk associated with over-the-counter trades, including the establishment of a list of approved counterparties and a credit committee which meets regularly.

Statement of Operations Breakdown by Segment

Navios Holdings reports financial information and evaluates its operations by charter revenues and not by vessel type, length of ship employment, customers or type of charter. Navios Holdings does not use discrete financial information to evaluate the operating results for each such type of charter. Although revenue can be identified for these types of charters, management does not identify expenses, profitability or other financial information for these charters. The reportable segments reflect the internal organization of the Company and are strategic businesses that offer different products and services. The Company has three reportable segments from which it derives its revenues: Drybulk Vessel Operations, Tanker Vessel Operations and Logistics Business. The Drybulk Vessel Operations business consists of transportation and handling of bulk cargoes through ownership, operation, and trading of vessels, freight, and FFAs. For Navios Holdings reporting purposes, Navios Logistics is considered as one reportable segment, the Logistics Business segment. The Logistics Business segment consists of our port terminal business, barge business and cabotage business in the Hidrovia region of South America. Following the formation of Navios Acquisition in 2010, the Company included an additional reportable segment, the Tanker Vessel Operations business, which consists of transportation and handling of liquid cargoes through ownership, operation, and trading of tanker vessels. Navios Holdings measures segment performance based on net income.

For a more detailed discussion about Navios Logistics segment, refer to Exhibit 99.1 to this Form 6-K.

Period over Period Comparisons

For the Three Month Period ended March 31, 2011 compared to the Three Month Period ended March 31, 2010

The following table presents consolidated revenue and expense information for the three month periods ended March 31, 2011 and 2010. This information was derived from the unaudited condensed consolidated revenue and expense accounts of Navios Holdings for the respective periods.

	Three Month Period Ended	Three Month Period Ended

(Expressed in thousands of U.S. dollars)	March 31, 2011 (unaudited)	March 31, 2010 (unaudited)
Revenue	$ 181,772	$ 154,369
Time charter, voyage and logistics business expenses	(59,114)	(76,501)
Direct vessel expenses	(34,018)	(20,044)
General and administrative expenses	(12,774)	(12,193)
Depreciation and amortization	(33,321)	(24,941)
Interest income/expense and finance cost, net	(29,437)	(21,409)
Loss on derivatives	(385)	(1,838)

(Expressed in thousands of U.S. dollars)	Three Month Period Ended March 31, 2011 (unaudited)	Three Month Period Ended March 31, 2010 (unaudited)
Gain on sale of assets		24,383
Loss on change in control	(35,325)	
Loss on bond extinguishment	(21,199)	
Other expense, net	(975)	(3,799)
(Loss)/income before equity in net earnings of affiliate companies	**(44,776)**	**18,027**
Equity in net earnings of affiliated companies	7,015	11,584
(Loss)/income before taxes	**$ (37,761)**	**$ 29,611**
Income taxes	904	768
Net (loss)/income	**(36,857)**	**30,379**
Less: Net income/(loss) attributable to the noncontrolling interest	(1,273)	922
Preferred stock dividends of subsidiary	(27)	
Add: Preferred stock dividends attributable to the noncontrolling interest	12	
Net (loss)/income attributable to Navios Holdings common stockholders	**$ (38,145)**	**$ 31,301**

Set forth below are selected historical and statistical data for Navios Holdings for each of the periods ended March 31, 2011 and 2010 that the Company believes may be useful in better understanding the Company s financial position and results of operations.

	Three Month Period Ended March 31, 2011	2010
FLEET DATA		
Available days	3,982	4,194
Operating days	3,932	4,178
Fleet utilization	98.7%	99.6%
Equivalent vessels	45	47
AVERAGE DAILY RESULTS		
Time Charter Equivalents	$ 24,622	$ 24,484

During the three month period ended March 31, 2011, there were 212 less available days as compared to the same period of 2010. This was mainly due to a decrease in short-term and long-term charter-in fleet available days of 174 days and 444 days, respectively, mitigated by an increase in the available days for owned vessels by 19.2% to 2,524 days in the first quarter of 2011 from 2,118 days in the same period of 2010.

Revenue: Revenue from drybulk vessel operations for the three months ended March 31, 2011 was $112.3 million as compared to $118.2 million for the same period during 2010. The decrease in revenue was mainly attributable to the decrease in the short-term and long-term charter-in fleet available days in the first quarter of 2011, as discussed above, as compared to the same period in 2010. The total available days of the fleet, for short-term and long-term charter-in fleet and for owned vessels, decreased by 5.1% to 3,982 in the first quarter of 2011 compared to 4,194 days for the same period of 2010. This decrease in revenue was partially offset by a slight increase in TCE rate per day by 0.6% from $24,484 per day in the first quarter of 2010 to $24,622 per day the same period of 2011.

Revenue from the logistics business was $44.4 million for the three months ended March 31, 2011 as compared to $36.2 million during the same period of 2010. This increase was mainly attributable to: (i) the acquisition of the vessel Sara H in February 2010; (ii) the delivery of the vessels Jiujiang and Stavroula in June and July 2010, respectively; (iii) the increase in volumes in the dry port terminal; (iv) the increase in the operational number of barges, mainly due to a three-year charter-in agreement for 15 tank barges, of which 13 tank barges were delivered during the third quarter of 2010 and two tank barges were delivered during the fourth quarter of 2010.

Revenue from tanker vessel operations for the three month period ended March 31, 2011 was $25.1 million. Following the delivery of a chemical tanker, the Nave Polaris, on January 27, 2011, Navios Acquisition had 874 available days and a TCE rate of $29,558. There were no operations in the corresponding period in 2010.

Time Charter, Voyage and Logistics Business Expenses: Time charter, voyage and logistic business expenses decreased by $17.4 million or 22.7% to $59.1 million for the three month period ended March 31, 2011 as compared to $76.5 million for same period in 2010. This was primarily due to a decrease in the short term and long-term fleet activity (which also negatively affected the available days of the fleet, as discussed above) and due to a decrease of $1.0 million in logistics business expenses.

Direct Vessel Expenses: Direct vessel expenses for operation of the owned fleet increased by $13.9 million to $34.0 million or 69.2% for the three month period ended March 31, 2011 as compared to $20.1 million for the same period in 2010. Direct vessel expenses include crew costs, provisions, deck and engine stores, lubricating oils, insurance premiums and maintenance and repairs. Out of the total amounts for the three month period ended March 31, 2011 and 2010, $14.4 million and $10.7 million, respectively, relate to Navios Logistics.

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The drybulk direct vessel expenses increased by $2.6 million or 27.7% to $12.0 million for the three month period ended March 31, 2011 as compared to $9.4 million for same period in 2010. The increase resulted primarily from the increase in available days for owned vessels from 2,118 days during 2010 to 2,524 days during 2011 following (i) the delivery of owned vessels at various times during 2010 and first quarter of 2011; and (ii) the increase in crew costs, spares and lubricating oils.

The tanker direct vessel expenses are $7.6 million for the three month period ended March 31, 2011 as compared to $0 for the same period in 2010.

General and Administrative Expenses: General and administrative expenses of Navios Holdings are composed of the following:

(Expressed in thousands of U.S. dollars)	**Three Month Period Ended March 31, 2011 (unaudited)**	**Three Month Period Ended March 31, 2010 (unaudited)**
Payroll and related costs (1)	5,306	4,192
Professional, legal and audit fees (1)	1,244	1,304
Navios Logistics	2,827	3,397
Navios Acquisition	1,025	
Other (1)	315	640
Sub-total	10,717	9,533
Credit risk insurance (1)	2,057	2,660
General and administrative expenses	12,774	12,193

(1) Excludes the logistics business and tanker vessels business, which are reflected in the line items for Navios Logistics and Navios Acquisition.

General and administrative expenses increased by $0.6 million to $12.8 million or 4.9% for the three month period ended March 31, 2011 as compared to $12.2 million for the same period of 2010. The increase was attributable mainly to: (a) a $1.1 million increase in payroll and other related costs; and (b) a $1.0 million increase in general and administrative expenses attributable to Navios Acquisition. The overall increase was partially offset by: (a) a $0.6 million decrease in general and administrative expenses relating to the logistics business; (b) a $0.6 million decrease relating to credit risk insurance premium; and (c) a $0.3 million decrease in other general and administrative expenses.

Depreciation and Amortization: For the three month period ended March 31, 2011, depreciation and amortization increased by $8.4 million to $33.3 million or 33.7% as compared to $24.9 million for the same period in 2010. The increase was primarily due to (a) an increase in depreciation of drybulk vessels by $1.9 million due to the increase of the owned fleet vessels; (b) an increase of $0.4 million from the logistics business mainly due to the new fleet acquired in 2010; and (c) an increase of $8.0 million attributable to Navios Acquisition. The overall increase of $10.3 was mitigated by a decrease of $1.9 million in amortization of favorable and unfavorable leases.

Interest Income/Expense and Finance Cost, Net: Interest income/expense and finance cost, net for the three month period ended March 31, 2011 increased by $8.0 million to $29.4 million, as compared to $21.4 million in the same period of 2010. This increase was mainly due to (a) interest expense attributable to Navios Acquisition amounting to $8.7 million compared to $0 for the same period in 2010; and (b) a $0.2 million increase in interest expense and financing cost due to the outstanding loan balances of Navios Logistics for the three month period ended March 31, 2011. This increase was mitigated by (a) a decrease in average LIBOR rate to 0.30% for the three month period ended March 31, 2011 as compared to 0.37% for the same period in 2010; (b) an increase in interest income by $0.4 million to $1.1 million for the three month period ended March 31, 2011 from $0.7 million in the same period of 2010; and (c) a decrease in amortization of financing costs by $0.6 million.

Loss on Derivatives: Loss on derivatives decreased to $0.4 million during the three month period ended March 31, 2011 as compared to $1.8 million for the same period in 2010, primarily due to a decrease in loss from FFA derivatives. Navios Holdings records the change in the fair value of derivatives at each balance sheet date. The FFA market has experienced significant volatility in the past few years and, accordingly, recognition of the changes in the fair value of FFAs has, and can, cause significant volatility in earnings. The extent of the impact on earnings is dependent on two factors: market conditions and Navios Holdings net position in the market. Market conditions were volatile in both periods. As an indicator of volatility, selected Baltic Exchange Panamax time charter average rates are shown below.

	Baltic Exchange s Panamax Time Charter Average Index	
February 2, 2011	$ 10,372	(a)
March 11, 2011	$ 17,115	(b)
March 31, 2011	$ 15,807	(*)
February 15, 2010	$ 24,249	(c)
March 22, 2010	$ 35,007	(d)
March 31, 2010	$ 29,566	(*)

(a) Low for Q1 2011

(b) High for Q1 2011

(c) Low for Q1 2010

(d) High for Q1 2010

(*) End of period rate

Gain on Sale of Assets: There was no gain on sale of assets for the three month period ended March 31, 2011. During the same period in 2010, gain on sale of assets was $24.4 million, which resulted from a gain of $23.8 million from the sale of the Navios Hyperion and a gain of $0.6 million from the sale of the Navios Aurora II to Navios Partners on January 8, 2010 and March 18, 2010, respectively.

Loss on Change in Control: On March 30, 2011, Navios Holdings completed the Navios Acquisition Share Exchange whereby Navios Holdings exchanged 7,676,000 shares of Navios Acquisition s common stock it held for non-voting Series C preferred stock of Navios Acquisition pursuant to an Exchange Agreement entered into on March 30, 2011 between Navios Acquisition and Navios Holdings. From that date onwards, Navios Acquisition is considered as an affiliate entity of Navios Holdings and is not a controlled subsidiary of the Company, and the investment in Navios Acquisition is now accounted for under the equity method due to the Company s significant influence over Navios Acquisition. Navios Acquisition will be accounted for under the equity method of accounting based on Navios Holdings 53.7% economic interest in Navios Acquisition, since the preferred shares are considered in substance common stock from an accounting perspective. On March 30, 2011, based on the equity method, the Company recorded an investment in Navios Acquisition of $103.3 million, which represents the fair value of the common stock and Series C preferred stock that was held by Navios Holdings on such date. On March 30, 2011, the Company accounted a loss on change in control of $35.3 million, which is equal to the fair value of the Company s investment in Navios Acquisition of $103.3 million less the Company s portion of Navios Acquisition s net assets on March 30, 2011.

Loss on Bond Extinguishment: In December 2006, the Company issued $300.0 million in senior notes at a fixed rate of 9.5% due on December 15, 2014 (2014 Notes). On January 28, 2011, Navios Holdings completed the sale of $350.0 million of 8.125% Senior Notes due 2019 (the 2019 Notes). The net proceeds from the sale of the 2019 Notes were used to redeem all of Navios Holdings 2014 Notes and pay related transaction fees and expenses and for general corporate purposes. As a result of such transaction, we recorded expenses from bond extinguishment of $21.2 million,

Other Expense, Net: Other expense, net decreased by $2.8 million to $1.0 million for the three month period ended March 31, 2011, from $3.8 million for the same period in 2010. Out of the total decrease of $2.8 million, the effect of Navios Logistics and Navios Acquisition is less than $0.1 million. This decrease was mainly due to (a) a $4.2 million decrease in provision for losses on accounts receivable; and (b) a $1.3 million decrease in voyage miscellaneous expenses. This decrease was primarily mitigated by (a) a $0.3 million decrease in interest income from finance leases, (b) a $2.2 million decrease in miscellaneous income and (c) a $0.2 million decrease in other expenses.

Equity in Net Earnings of Affiliated Companies: Equity in net earnings of affiliated companies decreased by $4.6 million to $7.0 million for the three month period ended March 31, 2011, from $11.6 million for the same period in 2010. This decrease was mainly due to a decrease of $4.6 million in deferred gain amortization. The Company recognizes the gain from the sale of vessels to Navios Partners immediately in earnings only to the extent of the interest in Navios Partners owned by third parties and defers recognition of the gain to the extent of its own ownership interest in Navios Partners (the deferred gain) (see also Related Party Transactions section). Subsequently, the deferred gain is amortized to income over the remaining useful life of the vessel. The recognition of the deferred gain is accelerated in the event that (i) the vessel is subsequently sold or otherwise disposed of by Navios Partners or (ii) the Company s ownership interest in Navios Partners is reduced.

Income Tax: Income tax increased by $0.1 million to $0.9 million for the three month period ended March 31, 2011, as compared to $0.8 million for the same period in 2010. The main reason was the increase in income taxes relating to Navios Logistics.

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Net (Loss)/Income Attributable to the Noncontrolling Interest: Net loss attributable to the noncontrolling interest increased by $2.2 million for the three month period ended March 31, 2011 to $1.3 million loss from a $0.9 million income for the same period in 2010. This increase in loss was attributable to Navios Logistics.

Liquidity and Capital Resources

Navios Holdings has historically financed its capital requirements with cash flows from operations, equity contributions from stockholders and credit facilities and other debt financings. Main uses of funds have been capital expenditures for the acquisition of new vessels, new construction and upgrades at the port terminals, expenditures incurred in connection with ensuring that the owned vessels comply with international and regulatory standards, repayments of credit facilities and payments of dividends. Navios Holdings anticipates that cash on hand, internally generated cash flows and borrowings under the existing credit facilities will be sufficient to fund the operations of the fleet and the logistics business, including working capital requirements. However, see Exercise of Vessel Purchase Options , Working Capital Position and Long-term Debt Obligations and Credit Arrangements for further discussion of Navios Holdings working capital position.

In November 2008, the Board of Directors approved a share repurchase program for up to $25.0 million of Navios Holdings common stock. Share repurchases are made pursuant to a program adopted under Rule 10b5-1 under the Exchange Act. The program does not require any minimum purchase or any specific number or amount of shares and may be suspended or reinstated at any time in Navios Holdings discretion and without notice. Repurchases are subject to restrictions under the terms of the Company s credit facilities and indentures. There were no shares repurchased during the fiscal quarter ended March 31, 2011 or for the year ended December 31, 2010.

The following table presents cash flow information derived from the unaudited consolidated statements of cash flows of Navios Holdings for the three month periods ended March 31, 2011 and 2010.

(Expressed in thousands of U.S. dollars)	**Three Month Period Ended March 31, 2011 (unaudited)**	**Three Month Period Ended March 31, 2010 (unaudited)**
Net cash provided by operating activities	$ 54,933	$ 24,032
Net cash (used in)/provided by investing activities	(133,566)	58,736
Net cash provided by/(used in) financing activities	51,383	(45,781)
(Decrease)/increase in cash and cash equivalents	**(27,250)**	**36,987**
Cash and cash equivalents, beginning of the period	207,410	173,933
Cash and cash equivalents, end of period	**$ 180,160**	**$ 210,920**

Cash provided by operating activities for the three month period ended March 31, 2011 as compared to the three month period ended March 31, 2010:

Net cash provided by operating activities increased by $30.9 million to $54.9 million for the three month period ended March 31, 2011 as compared to $24.0 million for the same period of 2010. In determining net cash provided by operating activities, net income is adjusted for the effects of certain non-cash items including depreciation and amortization and unrealized gains and losses on derivatives.

The aggregate adjustments to reconcile net loss to net cash provided by operating activities was a $78.3 million gain for the three month period ended March 31, 2011, which consisted mainly of the following adjustments: $33.3 million of depreciation and amortization, $1.2 million of amortization of deferred drydock expenses, $1.3 million of amortization of deferred finance fees, $0.3 million of unrealized losses on FFAs, $5.6 million of expenses from bond extinguishment, $1.0 million relating to share-based compensation, $35.3 million loss on change in control and a $1.3 million movement in earnings in affiliates net of dividends received. These adjustments were partially offset by a $0.1 million decrease in provision for losses on accounts receivable and a $0.9 million decrease in income taxes.

The change in operating assets and liabilities of $13.5 million for the three month period ended March 31, 2011 resulted from a $0.5 million decrease in restricted cash, $24.5 million increase in accrued expenses, a $7.7 million increase in deferred income, a $0.1 million increase in derivative accounts and a $3.2 million increase in other long term liabilities. These were partially offset by a $2.6 million increase in accounts receivable, a $4.3 million increase in due from affiliates, $3.9 million relating to payments for drydock and special survey costs, a $7.1 million decrease in accounts payable and a $4.6 million increase in prepaid expenses and other assets.

The aggregate adjustments to reconcile net income to net cash provided by operating activities in the three months ended March 31, 2010 was a $11.1 million gain for this period, which consisted mainly of the following adjustments: $24.9 million of depreciation and amortization, $0.6 million of amortization of deferred drydock expenses, $1.6 million of amortization of deferred finance fees, a $4.1 million provision for losses on accounts receivable, $5.8 million of unrealized losses on FFAs, $0.6 million relating to share-based compensation. These adjustments were partially offset by a $24.4 million gain from sale of the Navios

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Hyperion and the Navios Aurora II to Navios Partners, a $0.8 million decrease in income taxes, $0.2 million of unrealized gain on interest rate swaps and $1.1 million increase in earnings in affiliates net of dividends received.

The change in operating assets and liabilities of $17.4 million for the three month period ended March 31, 2010 resulted from a $2.6 million increase in accounts receivable, a $2.0 million increase in prepaid expenses and other assets, a $6.5 million increase in due from affiliates, a $1.7 million relating to payments for drydock and special survey costs, a $12.6 million decrease in accounts payable, a $0.7 million decrease in deferred income and a $6.0 million decrease in other long-term liabilities. These were offset by a $0.3 million increase in restricted cash, an $11.5 million increase in accrued expenses and a $2.9 million increase in derivative accounts.

Cash used in investing activities for the three month period ended March 31, 2011 as compared to the cash provided by investing activities for the three month period ended March 31, 2010:

Cash used in investing activities was $133.6 million for the three month period ended March 31, 2011, while for the same period of 2010 cash provided by investing activities was $58.7 million.

Cash used in investing activities for the three months ended March 31, 2011 was the result of: (a) a $72.4 million decrease in cash balance representing the cash held by Navios Acquisition on the date of the deconsolidation; (b) $3.0 million of deposits for acquisitions of tanker vessels under construction; (c) $51.5 million paid for the acquisition of the vessels Navios Azimuth, Navios Altamira and Navios Astra, and $4.5 million paid for the delivery of the Nave Polaris on January 27, 2011; and (d) the purchase of other fixed assets amounting to $2.9 million mainly relating to Navios Logistics. The above was partially offset by $0.7 million decrease in restricted cash.

Cash provided by investing activities for the three months ended March 31, 2010 was $58.7 million. This was the result of: (a) proceeds of $63.0 million and $90.0 million from the sale of the Navios Hyperion and the Navios Aurora II to Navios Partners, respectively; and (b) $0.1 million in connection with a capital lease receivable. The above was offset by: (a) the deposits for acquisitions of Capesize vessels under construction amounting to $64.7 million; (b) $26.6 million increase in cash held in a pledged account; and (c) the purchase of other fixed assets amounting to $3.0 million mainly relating to Navios Logistics.

Cash provided by financing activities for the three month period ended March 31, 2011 as compared to the cash used in financing activities for the three month period ended March 31, 2010:

Cash provided by financing activities was $51.4 million for the three month period ended March 31, 2011, while for the same period of 2010, cash used in financing activities was $45.8 million.

Cash provided by financing activities for the three months ended March 31, 2011 was the result of (a) $35.7 million of loan proceeds (net of relating finance fees of $0.7 million) in connection with (i) $33.0 million of Navios Holdings loan proceeds for financing the acquisition of Navios Azimuth and Navios Altamira, (ii) $3.0 million of Navios Acquisition s loan proceeds (net of relating finance fees of $0.4 million) and (iii) $0.3 million finance costs relating to Navios Logistics, (b) $341.0 million net proceeds from the sale of 8.125% Senior Notes due 2019; and (c) $0.4 million proceeds from the exercise of options to purchase common stock. This was partially offset by: (a) the repayment of $300.0 million of notes, from the proceeds of the sale of the 2019 Notes; (b) $17.2 million of installments paid in connection with Navios Holdings outstanding indebtedness (including Navios Acquisition and Navios Logistics); (c) a $0.5 million increase in restricted cash relating to loan repayments; (d) $0.3 million relating to payments for capital lease obligations; and (e) $7.7 million of dividends paid to the Company s shareholders.

Cash used in financing activities for the three months ended March 31, 2010 was the result of (a) $78.6 million of installments paid in connection with Navios Holdings outstanding indebtedness, (b) $7.0 million of dividends paid in the three months ended March 31, 2010, (c) $0.5 million of contributions to noncontrolling shareholders relating to the Logistics Business and (d) a $1.1 million increase in restricted cash required under the amendment of one of its facility agreements. This was partially offset by $41.4 million of loan proceeds (net of relating finance fees of $0.5 million) in connection with the drawdown of $9.3 million from the loan facility with Marfin Egnatia Bank, a $14.8 million drawdown from Emporiki Bank to finance the purchase of Navios Antares, a $17.5 million drawdown from Commerzbank for the construction of one Capesize vessel and a $0.3 million loan proceeds relating to the Logistics Business.

Adjusted EBITDA: EBITDA represents net income before interest, taxes, depreciation, and amortization. Adjusted EBITDA in this document represents EBITDA before stock based compensation. Navios Holdings uses Adjusted EBITDA because Navios Holdings believes that Adjusted EBITDA is a basis upon which liquidity can be assessed and presents useful information to investors regarding Navios Holdings ability to service and/or incur indebtedness, pay capital expenditures, meet working capital requirements and pay dividends. Navios Holdings also believes that Adjusted EBITDA is used: (i) by prospective and current lessors as well as potential lenders to evaluate potential transactions; and (ii) to evaluate and price potential acquisition candidates.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as substitutes for the analysis of Navios Holdings results as reported under U.S. GAAP. Some of these limitations are: (i) EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, working capital needs; and (ii) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, EBITDA and Adjusted EBITDA do not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA and

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Adjusted EBITDA should not be considered as principal indicators of Navios Holdings performance. Furthermore, our calculation of EBITDA and Adjusted EBITDA may not be comparable to that reported by other companies due to differences in methods of calculation.

Adjusted EBITDA Reconciliation to Cash from Operations

(Expressed in thousands of U.S. dollars)	Three Month Period Ended March 31, 2011 (unaudited)	Three Month Period Ended March 31, 2010 (unaudited)
Net cash provided by operating activities	$ 54,933	$ 24,032
Net increase in operating assets	11,026	10,819
Net (increase)/decrease in operating liabilities	(28,374)	4,938
Net interest cost	29,437	21,409
Deferred finance charges	(1,331)	(1,614)
Provision for gains/(losses) on accounts receivable	115	(4,066)
Unrealized loss on FFA derivatives, warrants and interest rate swaps	(5,836)	(5,530)
(Loss)/earnings in affiliates, net of dividends received	(1,303)	1,094
Payments for drydock and special survey	3,876	1,663
Net (loss)/income attributable to the noncontrolling interest	(1,273)	922
Preferred stock dividends attributable to the noncontrolling interest	12	
Preferred stock dividends of subsidiary	(27)	
Loss on change in control	(35,325)	
Gain on sale of assets		24,383
Adjusted EBITDA	**$ 25,930**	**$ 78,050**

Adjusted EBITDA for the first quarter of 2011 and 2010 was $25.9 million and $78.1 million, respectively. The $52.2 million decrease in Adjusted EBITDA was primarily due to (a) an increase in direct vessel expenses (excluding the amortization of deferred drydock and special survey costs) by $13.3 million; (b) an increase in general and administrative expenses by $0.2 million (excluding share based compensation expenses); (c) a decrease in gain on sale of assets by $24.4 million; (d) $35.3 million loss due to the deconsolidation of Navios Acquisition; (e) an increase in loss attributable to the noncontrolling interest by $2.2 million; (f) $21.2 million of expenses relating to the bond extinguishment in January 2011; and (g) a decrease in equity in net earnings from affiliated companies by $4.6 million. This overall variance of $101.2 million was mitigated by (a) an increase in revenue of $27.4 million to $181.8 in the first quarter of 2011 from $154.4 million in the same period of 2010; (b) a decrease in time charter, voyage and logistics business expenses by $17.4 million to $59.1 million in the first quarter of 2011,from $76.5 million in the same period of 2010; (c) a decrease in losses on derivatives by $1.4 million; and (d) a decrease in net other expenses by $2.8 million.

Long-term Debt Obligations and Credit Arrangements

Navios Holdings loans

In December 2006, the Company issued $300.0 million in senior notes at a fixed rate of 9.5% due on December 15, 2014. On January 28, 2011, Navios Holdings completed the sale of 2019 Notes at a fixed rate of 8.125%. The net proceeds from the sale of the 2019 Notes were used to redeem any and all of Navios Holdings outstanding 2014 Notes and pay related transaction fees and expenses and for general corporate purposes. As a result of such transaction, Navios Holdings recorded expenses from bond extinguishment of $21.2 million.

Senior Notes: On January 28, 2011, the Company and its wholly owned subsidiary, Navios Maritime Finance II (US) Inc. (NMF and, together with the Company, the Co-Issuers) issued $350.0 million in senior notes due on February 15, 2019 at a fixed rate of 8.125%. The senior notes are fully and unconditionally guaranteed, jointly and severally and on an unsecured senior basis, by all of the Company s subsidiaries, other than NMF, Navios Maritime Finance (US) Inc., Navios Acquisition and its subsidiaries, Navios Logistics and its subsidiaries and Navios GP L.L.C. The Co-Issuers have the option to redeem the notes in whole or in part, at any time (i) before February 15, 2015, at a redemption price equal to 100% of the principal amount, plus a make-whole premium, plus accrued and unpaid interest, if any, and (ii) on or after February 15, 2015, at a fixed price of 104.063% of the principal amount, which price declines ratably until it reaches par in 2017, plus accrued and unpaid interest, if any. At any time before February 15, 2014, the Co-Issuers may redeem up to 35% of the aggregate principal amount of the notes with the net proceeds of an equity offering at 108.125% of the principal amount of the notes, plus accrued and unpaid interest, if any, so long as at least 65% of the originally issued aggregate principal amount of the notes remains outstanding after such redemption. In addition, upon the occurrence of certain change of control events, the holders of the notes will have the right to require the Co-Issuers to repurchase some or all of the notes at 101%

of their face amount, plus accrued and unpaid interest to the repurchase date. Under a registration rights agreement, the Co-Issuers and the guarantors are obliged to file a registration statement prior on or to June 27, 2011, that enables the holders of notes to exchange the privately placed notes with publicly registered notes with identical terms. The senior notes contain covenants which, among other things, limit the incurrence of additional indebtedness, issuance of certain preferred stock, the payment of dividends, redemption or repurchase of capital stock or making restricted payments and investments, creation of certain liens, transfer or sale of assets, entering in transactions with affiliates, merging or consolidating or selling all or substantially all of the Co-Issuers properties and assets and creation or designation of restricted subsidiaries. The Co-Issuers are in compliance with the covenants as of March 31, 2011.

Ship Mortgage Notes: In November 2009, the Company and its wholly owned subsidiary, Navios Maritime Finance (US) Inc. (together, the Co-Issuers) issued $400.0 million of first priority ship mortgage notes due on November 1, 2017 at a fixed rate of 8.875%. The ship mortgage notes are senior obligations of the Co-Issuers and are secured by first priority ship mortgages on 15 vessels owned by certain subsidiary guarantors and other related collateral securities. The ship mortgage notes are fully and unconditionally guaranteed, jointly and severally by all of the Company s direct and indirect subsidiaries that guarantee the 2019 Notes. The guarantees of the Company s subsidiaries that own mortgage vessels are senior secured guarantees and the guarantees of the Company s subsidiaries that do not own mortgage vessels are senior unsecured guarantees. At any time before November 1, 2012, the Co-Issuers may redeem up to 35% of the aggregate principal amount of the ship mortgage notes with the net proceeds of a public equity offering at 108.875% of the principal amount of the ship mortgage notes, plus accrued and unpaid interest, if any, so long as at least 65% of the originally issued aggregate principal amount of the ship mortgage notes remains outstanding after such redemption. In addition, the Co-Issuers have the option to redeem the ship mortgage notes in whole or in part, at any time (1) before November 1, 2013, at a redemption price equal to 100% of the principal amount plus a make whole price which is based on a formula calculated using a discount rate of treasury bonds plus 50 bps, and (2) on or after November 1, 2013, at a fixed price of 104.438%, which price declines ratably until it reaches par in 2015. Furthermore, upon occurrence of certain change of control events, the holders of the ship mortgage notes may require the Co-Issuers to repurchase some or all of the notes at 101% of their face amount. Pursuant to the terms of a registration rights agreement, as a result of satisfying certain conditions, the Co-Issuers and the guarantors are not obligated to file a registration statement that would have enabled the holders of ship mortgage notes to exchange the privately placed notes with publicly registered notes with identical terms. The ship mortgage notes contain covenants which, among other things, limit the incurrence of additional indebtedness, issuance of certain preferred stock, the payment of dividends, redemption or repurchase of capital stock or making restricted payments and investments, creation of certain liens, transfer or sale of assets, entering into certain transactions with affiliates, merging or consolidating or selling all or substantially all of Co-Issures properties and assets and creation or designation of restricted subsidiaries. The Co-Issuers are in compliance with the covenants as of March 31, 2011.

Loan Facilities:

The majority of the Company s senior secured credit facilities include maintenance covenants, including loan-to-value ratio covenants, based on either charter-adjusted valuations, or charter-free valuations. As of March 31, 2011, the Company was in compliance with all of the covenants under each of its credit facilities outlined below.

HSH/Commerzbank Facility: In February 2007, Navios Holdings entered into a secured loan facility with HSH Nordbank and Commerzbank AG maturing on October 31, 2014. The facility was composed of a $280.0 million term loan facility and a $120.0 million reducing revolving facility. In April 2008, the Company entered into an agreement for the amendment of the facility due to a prepayment of $10.0 million. In March 2009, Navios Holdings further amended its facility agreement, effective as of November 15, 2008, as follows: (a) to reduce the Security Value Maintenance ratio (SVM) (ratio of the charter-free valuations of the mortgaged vessels over the outstanding loan amount) from 125% to 100%; (b) to obligate Navios Holdings to accumulate cash reserves into a pledged account with the agent bank of $14.0 million ($5.0 million in March 2009 and $1.1 million on each loan repayment date during 2009 and 2010, starting from January 2009); and (c) to set the margin at 200 bps. The amendment was effective until January 31, 2010.

Following the sale of the Navios Apollon on October 29, 2009, Navios Holdings prepaid $13.5 million of the loan facility and permanently reduced its revolving credit facility by $4.8 million.

Following the issuance of the ship mortgage notes in November 2009, the mortgages and security interests on ten vessels previously secured by the loan and the revolving facility were fully released in connection with the partial prepayment of the facility with approximately $197.6 million, of which $195.0 million was funded from the issuance of the ship mortgage notes and the remaining $2.6 million from the Company s cash. The Company permanently reduced the revolving facility by an amount of $26.7 million and the term loan facility by $80.1 million. In April 2010, Navios Holdings further amended its facility agreement with HSH/Commerzbank as follows: (a) to release certain pledge deposits amounting to $117.5 million and to accept additional securities of substitute vessels; and (b) to set a margin ranging from 115 bps to 175 bps depending on the security value. In April 2010, the available amount of $21.6 million under the revolving facility was drawn and an amount of $117.5 million was kept in a pledged account. On April 29, 2010, restricted cash of $18.0 million was drawn to finance the acquisition of the Navios Vector. An amount of $74.0 million was drawn from the pledged account to finance the acquisitions of the Navios Melodia and the Navios Fulvia ($37.0 million for each vessel) and a prepayment of $25.6 million was made on October 1, 2010. As a result, no outstanding amount was kept in the pledged account as of December 31, 2010 and as of March 31, 2011.

The loan facility requires compliance with financial covenants, including specified SVM to total debt percentage and minimum liquidity. It is an event of default under the revolving credit facility if such covenants are not complied with or if Angeliki Frangou, the Company s Chairman and Chief Executive Officer, beneficially owns less than 20% of the issued stock.

On November 15, 2010, following the sale of the Navios Melodia and the Navios Fulvia to Navios Partners for a total consideration of $177.0 million, of which $162.0 million was paid in cash and the remaining in Navios Partners units, Navios Holdings fully repaid its outstanding loan balance with HSH Nordbank in respect of the two vessels amounting to $71.9 million.

As of March 31, 2011, the outstanding amount under the revolving credit facility was $14.2 million and the outstanding amount under the loan facility was $62.2 million. On May 19, 2011, in connection with the sale of the Navios Orbiter to Navios Partners, Navios Holdings repaid $20.2 million of the outstanding loan associated with this vessel.

Emporiki Facilities: In December 2007, Navios Holdings entered into a facility agreement with Emporiki Bank of Greece of up to $154.0 million in order to partially finance the construction of two Capesize bulk carriers. In July 2009, following an amendment of the above-mentioned agreement, the amount of the facility has been changed to up to $130.0 million.

On March 18, 2010, following the sale of the Navios Aurora II to Navios Partners, Navios Holdings repaid $64.4 million and the outstanding amount of the facility has been reduced to $64.4 million. The amended facility is repayable in 10 semi-annual installments of $3.0 million and 10 semi-annual installments of $2.0 million with a final balloon payment of $14.9 million on the last payment date. The interest rate of the amended facility is based on a margin of 175 bps. The loan facility requires compliance with certain financial covenants and the covenants contained in the senior notes. As of March 31, 2011, the outstanding amount under this facility was $58.4 million. On May 19, 2011, in connection with the sale of the Navios Luz to Navios Partners, Navios Holdings repaid $37.5 million of the outstanding loan associated with this vessel.

In August 2009, Navios Holdings entered into another facility agreement with Emporiki Bank of Greece of up to $75.0 million (divided into two tranches of $37.5 million) to partially finance the acquisition costs of two Capesize vessels. Each tranche of the facility is repayable in 20 semi-annual installments of $1.4 million with a final payment of $10.0 million on the last payment date. The repayment of each tranche starts six months after the delivery date of the respective Capesize vessel. It bears interest at a rate of LIBOR plus 175 bps. As of March 31, 2011, the full amount of $75.0 million was drawn under this facility.

In September 2010, Navios Holdings entered into another facility agreement with Emporiki Bank of Greece of up to $40.0 million in order to partially finance the construction of one Capesize bulk carrier, the Navios Azimuth, which was delivered on February 14, 2011 to Navios Holdings. The loan is repayable in 20 semi-annual equal installments of $1.5 million, with a final balloon payment of $10.0 million on the last payment date. It bears interest at a rate of LIBOR plus 275 bps. The loan facility requires compliance with certain financial covenants and the covenants contained in the senior notes. As of March 31, 2011, the amount drawn was $40.0 million.

DNB Facilities: In June 2008, Navios Holdings entered into a facility agreement with DNB NOR BANK ASA of up to $133.0 million in order to partially finance the construction of two Capesize bulk carriers. In June 2009, following an amendment of the above-mentioned agreement, one of the two tranches amounting to $66.5 million was cancelled following the cancellation of construction of one Capesize bulk carrier. The amended facility is repayable six months following the delivery of the Capesize vessel in 11 semi-annual installments of $2.9 million, with a final payment of $34.6 million on the last payment date. The interest rate of the amended facility is based on a margin of 225 bps as defined in the new agreement. As of March 31, 2011, the outstanding amount under this facility was $60.7 million.

In August 2010, Navios Holdings entered into a facility agreement with DNB NOR BANK ASA of up to $40.0 million in order to partially finance the construction of one Capesize bulk carrier, the Navios Altamira, which was delivered on January 28, 2011 to Navios Holdings. The loan is repayable three months following the delivery of the Capesize vessel in 24 equal quarterly installments of $645,000 with a final balloon payment of $24.5 million on the last payment date. It bears interest at a rate of LIBOR plus 275 bps. The loan facility requires compliance with certain financial covenants and the covenants contained in the senior notes. As of March 31, 2011, the amount drawn was $40.0 million.

Dekabank Facility: In February 2009 (amended and restated in May 2009), Navios Holdings entered into a facility of up to $120.0 million with Dekabank Deutsche Girozentrale to finance the acquisition of two Capesize vessels. The loan is repayable in 20 semi-annual installments and bears an interest rate based on a margin of 190 bps. The loan facility requires compliance with certain financial covenants and the covenants contained in the senior notes. Following the sale of the Navios Pollux to Navios Partners in May 2010, an amount of $39.0 million was kept in a pledged account pending the delivery of a substitute vessel as collateral to this facility. The amount of $39.0 million kept in the pledged account was released to finance the delivery of the Capesize vessel Navios Buena Ventura that was delivered to Navios Holdings on October 29, 2010. As of March 31, 2011, $83.0 million was outstanding under this facility.

Marfin Facility: In March 2009, Navios Holdings entered into a loan facility with Marfin Egnatia Bank of up to $110.0 million to be used to finance the pre-delivery installments for the construction of newbuilding vessels and for general corporate purposes. It bears interest at a rate based on a margin of 275 bps. During 2010, a total amount of $43.4 million was drawn and has been fully repaid. Since September 7, 2010, the available amount of the loan facility has been reduced to $30.0 million. On May 10, 2011, the amount of $18.9 million was drawn to finance the acquisition of the Navios Astra.

Commerzbank Facility: In June 2009, Navios Holdings entered into a new facility agreement of up to $240.0 million (divided into four tranches of $60.0 million) with Commerzbank AG in order to partially finance the acquisition of a Capesize vessel and the construction of three Capesize vessels. Each tranche of the facility is repayable starting three months after the delivery of each

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Capesize vessel in 40 quarterly installments of $0.9 million with a final payment of $24.7 million on the last payment date. It bears interest at a rate based on a margin of 225 bps. As of March 31, 2011, the outstanding amount was $109.8 million. The loan facility requires compliance with the covenants contained in the senior notes. Following the sale of two Capesize vessels, the Navios Melodia and the Navios Buena Ventura, on September 20, 2010 and October 29, 2010 to Navios Partners, respectively, Navios Holdings cancelled two of the four tranches and fully repaid in October 2010 their outstanding loan balances of $53.6 million and $54.5 million, respectively.

Unsecured Bond: In July 2009, Navios Holdings issued a $20.0 million unsecured bond due in July 2012 as a partial payment for the acquisition price of a Capesize vessel. Interest will accrue on the principal amount of the unsecured bond at the rate of 6% per annum. All accrued interest (which will not be compounded) will be first due and payable in July 2012, which is the maturity date. The unsecured bond may be prepaid by Navios Holdings at any time without prepayment penalty.

Navios Logistics loans

Marfin Facility

On March 31, 2008, Nauticler entered into a $70.0 million loan facility for the purpose of providing Nauticler S.A. with investment capital to be used in connection with one or more investment projects. In March 2009, Navios Logistics transferred its loan facility of $70.0 million to Marfin Popular Bank Public Co. Ltd. The loan provided for an additional one year extension and an increase in margin to 275 basis points. On March 23, 2010, the loan was extended for one additional year, providing an increase in margin to 300 basis points. On March 29, 2011, Navios Logistics agreed with Marfin Popular Bank to amend its current loan agreement with its subsidiary, Nauticler S.A., to provide for a $40.0 million revolving credit facility. The amended facility provides for the existing margin of 300 basis points and would be secured by mortgages on four tanker vessels or alternative security over other assets acceptable to the bank. The amended facility will require compliance with customary covenants. The obligation of the bank under the amended facility is subject to prepayment of the $70.0 million facility and is subject to customary conditions, such as the receipt of satisfactory appraisals, insurance, opinions and the negotiation, execution and delivery of mutually satisfactory loan documentation. In connection with the amendment, Nauticler S.A. agreed to prepay the $70.0 million through the proceeds of the Logistics Senior Notes (see Note 16 to the condensed consolidated financial statements appearing elsewhere in this Form 6-K). As of March 31, 2011, the amount outstanding under this facility was $70.0 million.

On April 12, 2011, Navios Logistics issued $200.0 million of Logistics Senior Notes due on April 15, 2019, at a fixed rate of 9.25%. The net proceeds from the Logistics Senior Notes were approximately $194.0 million, after deducting related fees and estimated expenses, and will be used to (i) purchase barges and pushboats; (ii) repay existing indebtedness; and (iii) to the extent available, for general corporate purposes. As of April 12, 2011, Navios Logistics, using the proceeds from the Logistics Senior Notes, fully repaid the $70.0 million loan facility with Marfin Popular Bank.

Non-Wholly Owned Subsidiaries Indebtedness

In connection with the acquisition of Horamar, Navios Logistics assumed a $9.5 million loan facility that was entered into by HS Shipping Ltd. Inc. in 2006, in order to finance the building of a 8,974 dwt double hull tanker (Malva H). Since the vessel s delivery, the interest rate has been LIBOR plus 150 bps. The loan is repaid in installments that shall not be less than 90% of the amount of the last hire payment due to be paid to HS Shipping Ltd. Inc. The repayment date shall not extend beyond December 31, 2011. The loan can be pre-paid before such date, with two days written notice. The loan also requires compliance with certain covenants. As of March 31, 2011, the amount outstanding under this facility was $6.6 million.

In connection with the acquisition of Horamar, Navios Logistics assumed a $2.3 million loan facility that was entered into by Thalassa Energy S.A., a majority owned subsidiary of Navios Logistics, in October 2007, in order to finance the purchase of two self-propelled barges (the Formosa and San Lorenzo). The loan bears interest at LIBOR plus 150 bps. The loan is repaid in five equal installments of $0.5 million four of which were made in November 2008, June 2009, January and August 2010 and the remaining one was repaid in March 2011. The loan also requires compliance with certain covenants. The loan was secured by a first priority mortgage over the two self-propelled barges. As of March 31, 2011, the loan was fully repaid.

On September 4, 2009, HS Navigation Inc. entered into a loan facility for an amount of up to $18.7 million that bears interest at LIBOR plus 225 bps in order to finance the acquisition cost of the Estefania H. The loan is repayable in installments that shall not be less than the highest of (a) 90% of the amount of the last hire payment due to HS Navigation Inc. prior to the repayment date, and (b) $0.3 million inclusive of any interest accrued in relation to the loan at that time. The repayment date must occur prior to May 15, 2016. The loan also requires compliance with certain covenants. As of March 31, 2011, the amount outstanding under this facility was $14.4 million.

On December 15, 2009, HS Tankers Inc., a majority owned subsidiary of Navios Logistics, entered into a loan facility in order to finance the acquisition cost of the Makenita H for an amount of $24.0 million which bears interest at LIBOR plus 225 bps. The loan is repayable in installments that shall not be less than the highest of (a) 90% of the amount of the last hire payment due to HS Tankers Inc. prior to the repayment date, and (b) $0.3 million, inclusive of any interest accrued in relation to the loan at that time. The repayment date must occur prior to March 24, 2016. The loan also requires compliance with certain covenants. As of March 31, 2011, the amount outstanding under this facility was $20.5 million.

On December 20, 2010, HS South Inc., a majority owned subsidiary of Navios Logistics, entered into a loan facility in order to finance the acquisition cost of the Sara H for an amount of $14.4 million which bears interest at LIBOR plus 225 bps. The loan will be repaid by installments. The loan is repayable in installments that shall not be less than the highest of (a) 90% of the amount of the last hire payment due to be HS South Inc. prior to the repayment date and (b) $0.3 million, inclusive of any interest accrued in relation to the loan at that time. The repayment date must occur prior to May 24, 2016. The loan also requires compliance with certain covenants. As of March 31, 2011, the amount outstanding under this facility was $13.8 million.

Other Indebtedness

In connection with the acquisition of Hidronave S.A. in October 29, 2009, Navios Logistics assumed an $0.8 million loan facility that was entered into by Hidronave S.A. in 2001, in order to finance the construction of a pushboat (Nazira). As of March 31, 2011, the outstanding loan balance was $0.7 million. The loan facility bears interest at a fixed rate of 600 bps. The loan is repaid in installments of $5,740 each and the final repayment date can not extend beyond August 10, 2021. The loan also requires compliance with certain covenants.

As of March 31, 2011, Navios Logistics and its subsidiaries were in compliance with all of the covenants under each of its credit facilities.

The maturity table below reflects the principal payments for the next five years and thereafter of all borrowings of Navios Holdings (including Navios Logistics) outstanding as of March 31, 2011, based on the repayment schedule of the respective loan facilities (as described above) and the outstanding amount due under the debt securities.

Payment due by period	**Amounts in millions of U.S. dollars**
March 31, 2012	$ 63.4
March 31, 2013	77.3
March 31, 2014	58.2
March 31, 2015	97.9
March 31, 2016	82.5
March 31, 2017 and thereafter	1,060.0
Total	**$ 1,439.3**

Contractual Obligations:

	March 31, 2011 Payment due by period (Amounts in millions of U.S. Dollars)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt (1)	$ 1,439.3	$ 63.4	$ 135.5	$ 180.4	$ 1,060.0
Operating Lease Obligations (Time Charters)	951.5	91.5	206.8	190.4	462.8
Operating Lease Obligations Push Boats and Barges (Time Charters)	11.8	5.9	5.9		
Capital lease obligations	32.0	1.0	31.0		
Rent Obligations (2)	16.6	2.1	4.1	4.2	6.2
Total	**$ 2,451.2**	**$ 163.9**	**$ 383.3**	**$ 375.0**	**$ 1,529.0**

(1) The amount identified does not include interest costs associated with the outstanding credit facilities, which for variable rate debt is based on LIBOR rates, plus the costs of complying with any applicable regulatory requirements and a margin ranging from 1.25% to 3.00% per annum and stated interest rate for fixed rate debt.

(2) Navios Corporation leases approximately 11,923 square feet of space at 825 Third Avenue, New York, NY 10022, pursuant to a lease that expires on April 29, 2019. Navios ShipManagement Inc. and Navios Corporation lease approximately 2,034 square meters of space at 85 Akti Miaouli, Piraeus, Greece, pursuant to a lease that expires in 2017. On July 1, 2010, Kleimar N.V. signed a new contract and currently leases approximately 632 square meters for its offices. Navios ShipManagement Inc. leases approximately 1,368 square meters of space at 85 Akti Miaouli, Piraeus, Greece, pursuant to a lease agreement that expires in 2019. On October 29, 2010, the existing lease agreement for its offices in Piraeus was amended and the Company leases, since November 2010, 253.75 less square meters. The amended lease expires in 2019. On October 29, 2010, Navios Tankers Management Inc. entered also into a lease agreement for 253.75 square meters which expires in 2019. Navios Logistics has several lease agreements with respect to its various operating offices. The table above incorporates the lease obligations of the offices indicated in this footnote.

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Working Capital Position

On March 31, 2011, Navios Holdings current assets totaled $317.2 million, while current liabilities totaled $205.4 million, resulting in a positive working capital position of $111.8 million. Navios Holdings cash forecast indicates that it will generate sufficient cash during 2011 and 2012 to make the required principal and interest payments on its indebtedness, provide for the normal working capital requirements of the business and remain in a positive cash position during 2011 and 2012.

While projections indicate that existing cash balances and operating cash flows will be sufficient to service the existing indebtedness, Navios Holdings continues to review its cash flows with a view toward increasing working capital.

Capital Expenditures

Since 2007, the Company has entered into various agreements for the acquisition of newbuild Capesize vessels which were delivered on various dates from the beginning of 2009 until February 2011. As of March 31, 2011, the Company had taken delivery of a total of 16 Capesize vessels (the Navios Bonavis, the Navios Happiness, the Navios Pollux, the Navios Aurora II, the Navios Lumen, the Navios Phoenix, the Navios Stellar, the Navios Antares, the Navios Melodia, the Navios Fulvia, the Navios Buena Ventura, the Navios Bonheur, the Navios Etoile, the Navios Luz, the Navios Azimuth and the Navios Altamira) and two Ultra Handymax vessels (the Navios Celestial and the Navios Vega). The Company has no further newbuilding commitments as of March 31, 2011.

Dividend Policy

Currently, Navios Holdings intends to retain most of its available earnings generated by operations for the development and growth of its business. In addition, the terms and provisions of Navios Holdings current secured credit facilities and indentures limit its ability to pay dividends in excess of certain amounts or if certain covenants are not met. However, subject to the terms of its credit facilities and indentures, the Board of Directors may from time to time consider the payment of dividends and on May 17, 2011, the Board of Directors declared a quarterly cash dividend of $0.06 per share of common stock, with respect to the first quarter of 2011, payable on July 7, 2011 to stockholders of record as of June 15, 2011. The declaration and payment of any dividend remains subject to the discretion of the Board, and will depend on, among other things, Navios Holdings cash requirements as measured by market opportunities, debt obligations, and restrictions contained in its credit agreements and indentures and market conditions.

Concentration of Credit Risk

Concentrations of credit risk with respect to accounts receivables are limited due to Navios Holdings large number of customers, who are internationally dispersed and have a variety of end markets in which they sell. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in Navios Holdings trade receivables. For the three month period ended March 31, 2011 and for the year ended December 31, 2010, no customer accounted for more than 10% of the Company s revenue.

Off-Balance Sheet Arrangements

Charter hire payments to third parties for chartered-in vessels are treated as operating leases for accounting purposes. Navios Holdings is also committed to making rental payments under operating leases for its office premises. Future minimum rental payments under Navios Holdings non-cancelable operating leases are included in the contractual obligations above. As of March 31, 2011, Navios Holdings was contingently liable for letters of guarantee and letters of credit amounting to $0.5 million issued by various banks in favor of various organizations and the total amount was collateralized by cash deposits which are included as a component of restricted cash. Navios Holdings issued no additional guarantees to third parties as of March 31, 2011 and 2010.

As of March 31, 2011, the Company s subsidiaries in South America were contingently liable for various claims and penalties to the local tax authorities amounting to $4.9 million ($4.7 million as of December 31, 2010). The respective provision for such contingencies was included in Other long-term liabilities and deferred income . According to the acquisition agreement (see Note 1 to the condensed consolidated financial statements included elsewhere in this Form 6-K), if the Company becomes obligated to pay such amounts, the amounts involved will be reimbursed by the previous shareholders, and, as such, the Company has recognized a receivable (included in Other long-term assets) against such liability, since the management considers collection of the receivable to be probable.

The contingencies are expected to be resolved in the next four years. In the opinion of management, the ultimate disposition of these matters will not adversely affect the Company s financial position, results of operations or liquidity. On August 19, 2009, the Company issued a guarantee and indemnity letter that guarantees the performance by Petrolera San Antonio S.A. (Petrosan) of all its obligations to Vitol S.A. (Vitol) up to $4.0 million. On May 6, 2011, the guarantee amount was increased to $10.0 million. In addition, Petrosan agreed to pay Vitol immediately upon demand, any and all sums up to the referred limit, plus interest and costs, in relation to sales of gas oil under certain contracts between Vitol and Petrosan. This guarantee will expire on August 18, 2011.

The Company, in the normal course of business, entered into contracts to time charter-in vessels for various periods through June 2023.

Related Party Transactions

Office rent: On January 2, 2006, Navios Corporation and Navios ShipManagement Inc., two wholly owned subsidiaries of Navios Holdings, entered into two lease agreements with Goldland Ktimatiki-Ikodomiki-Touristiki and Xenodohiaki Anonimos Eteria, both of which are Greek corporations that are currently majority owned by Angeliki Frangou, Navios Holdings Chairman and Chief Executive Officer. The lease agreements provide for the leasing of two facilities located in Piraeus, Greece, of approximately 2,034.3 square meters to house the operations of most of the Company s subsidiaries. The total annual lease payments are 0.5 million (approximately $0.7 million) and the lease agreements expire in 2017. These payments are subject to annual adjustments starting from the third year, which are based on the inflation rate prevailing in Greece as reported by the Greek State at the end of each year.

On October 31, 2007, Navios ShipManagement Inc. entered into a lease agreement with Emerald Ktimatiki-Ikodomiki-Touristiki and Xenodohiaki Anonimos Eteria, both of which are Greek corporations that are currently majority owned by Angeliki Frangou, Navios Holdings Chairman and Chief Executive Officer. The lease agreement initially provided for the leasing of one facility in Piraeus, Greece, of approximately 1,376.5 square meters to house part of the operations of the Company. On October 29, 2010, the existing lease agreement was amended and Navios ShipManagement Inc. leases 253.75 less square meters. The total annual lease payments are 0.4 million (approximately $0.5 million) and the lease agreement expires in 2019. These payments are subject to annual adjustments starting from the third year, which are based on the inflation rate prevailing in Greece as reported by the Greek State at the end of each year.

On October 29, 2010, Navios Tankers Management Inc. entered into a lease agreement with Emerald Ktimatiki-Ikodomiki-Touristiki and Xenodohiaki Anonimos Eteria, both of which are Greek corporations that are currently majority owned by Angeliki Frangou, Navios Holdings Chairman and Chief Executive Officer. The lease agreement provides for the leasing of one facility in Piraeus, Greece, of approximately 253.75 square meters to house part of the operations of the Company. The total annual lease payments are 0.08 million (approximately $0.1 million) and the lease agreement expires in 2019. These payments are subject to annual adjustments starting from the third year, which are based on the inflation rate prevailing in Greece as reported by the Greek State at the end of each year.

Purchase of services: The Company utilizes Acropolis Chartering and Shipping Inc. (Acropolis), a brokerage firm for freight and shipping charters as a broker. Navios Holdings has a 50% interest in Acropolis. Although Navios Holdings owns 50% of Acropolis stock, Navios Holdings has agreed with the other shareholder that the earnings and amounts declared by way of dividends will be allocated 35% to the Company with the balance to the other shareholder. Commissions paid to Acropolis for the three month period ended March 31, 2011 and 2010 were $0 and $0.1 million, respectively. During the three month period ended March 31, 2011 and 2010, the Company received dividends of $0 and $0.6 million, respectively. Included in the trade accounts payable at March 31, 2011 and December 31, 2010 is an amount of $0.1 million and $0.1 million, respectively, which is due to Acropolis.

Management fees: Pursuant to a management agreement dated November 16, 2007, Navios Holdings provides commercial and technical management services to Navios Partners vessels for a daily fixed fee of $4,000 per owned Panamax vessel and $5,000 per owned Capesize vessel. This daily fee covers all of the vessels operating expenses, including the cost of drydock and special surveys. The daily initial term of the agreement is five years commencing from November 16, 2007. Total management fees for the periods ended March 31, 2011 and 2010, amounted to $6.0 million and $4.1 million, respectively. Since November 2009, Navios Holdings will receive $4,500 per owned Ultra Handymax vessel, $4,400 per owned Panamax vessel and $5,500 per owned Capesize vessel.

Pursuant to a management agreement dated May 28, 2010, as amended on September 10, 2010, for five years from the closing of Navios Acquisition s initial vessel acquisition Navios Holdings provides commercial and technical management services to Navios Acquisition s vessels for a daily fee of $6,000 per owned MR2 product tanker and chemical tanker vessel and $7,000 per owned LR1 product tanker vessel and $10,000 per owned VLCC vessel, for the first two years with the fixed daily fees adjusted for the remainder of the term based on then-current market fees. This daily fee covers all of the vessels operating expenses, other than certain extraordinary fees and costs. During the remaining three years of the term of the Management Agreement, Navios Acquisition expects that it will reimburse Navios Holdings for all of the actual operating costs and expenses it incurs in connection with the management of its fleet. Actual operating costs and expenses will be determined in a manner consistent with how the initial $6,000 and

$7,000 fixed fees were determined. Drydocking expenses will be fixed under this agreement for up to $300,000 per vessel and will be reimbursed at cost for VLCC vessels. Total management fees for the periods ended March 31, 2011 and 2010 amounted to $7.6 million and $0, respectively, which have been eliminated upon consolidation of Navios Acquisition through March 30, 2011.

General & administrative expenses: Pursuant to the administrative services agreement dated November 16, 2007, Navios Holdings provides administrative services to Navios Partners which include: bookkeeping, audit and accounting services, legal and insurance services, administrative and clerical services, banking and financial services, advisory services, client and investor relations and other services. Navios Holdings is reimbursed for reasonable costs and expenses incurred in connection with the provision of these services. Total general and administrative fees charged for the periods ended March 31, 2011 and 2010 amounted to $0.8 million and $0.6 million, respectively.

On May 28, 2010, Navios Acquisition entered into an administrative services agreement, expiring May 28, 2015, with Navios Holdings, pursuant to which Navios Holdings provides office space and certain administrative management services to Navios Acquisition which include: bookkeeping, audit and accounting services, legal and insurance services, administrative and clerical services, banking and financial services, advisory services, client and investor relations and other. Navios Holdings is reimbursed for

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reasonable costs and expenses incurred in connection with the provision of these services. Total general and administrative fees charged for the periods ended March 31, 2011 and 2010 amounted to $0.3 million and $0, respectively, which have been eliminated upon consolidation of Navios Acquisition through March 30, 2011.

Balance due from affiliate: Balance due from affiliate as of March 31, 2011 amounted to $15.3 million (December 31, 2010: $2.6 million) which includes the current amounts due from Navios Partners of $6.9 million and amounts due from Navios Acquisition of $8.4 million. The balances mainly consist of management fees, administrative fees and other expenses.

Omnibus agreements: Navios Holdings entered into an omnibus agreement with Navios Partners (the Partners Omnibus Agreement) in connection with the closing of Navios Partners IPO governing, among other things, when Navios Holdings and Navios Partners may compete against each other as well as rights of first offer on certain drybulk carriers. Pursuant to the Partners Omnibus Agreement, Navios Partners generally agreed not to acquire or own Panamax or Capesize drybulk carriers under time charters of three or more years without the consent of an independent committee of Navios Partners. In addition, Navios Holdings agreed to offer to Navios Partners the opportunity to purchase vessels from Navios Holdings when such vessels are fixed under time charters of three or more years. The Partners Omnibus Agreement was amended in June 2009 to release Navios Holdings for two years from restrictions on acquiring Capesize and Panamax vessels from third parties.

Navios Acquisition entered into an omnibus agreement (the Acquisition Omnibus Agreement) with Navios Holdings and Navios Partners in connection with the closing of Navios Acquisition s initial vessel acquisition pursuant to which, among other things, Navios Holdings and Navios Partners agreed not to acquire, charter-in or own liquid shipment vessels, except for container vessels and vessels that are primarily employed in operations in South America without the consent of an independent committee of Navios Acquisition. In addition, Navios Acquisition, under the Acquisition Omnibus Agreement, agreed to cause its subsidiaries not to acquire, own, operate or charter drybulk carriers subject to specific exceptions. Under the Acquisition Omnibus Agreement, Navios Acquisition and its subsidiaries granted to Navios Holdings and Navios Partners a right of first offer on any proposed sale, transfer or other disposition of any of its drybulk carriers and related charters owned or acquired by Navios Acquisition. Likewise, Navios Holdings and Navios Partners agreed to grant a similar right of first offer to Navios Acquisition for any liquid shipment vessels it might own. These rights of first offer will not apply to a (a) sale, transfer or other disposition of vessels between any affiliated subsidiaries, or pursuant to the terms of any charter or other agreement with a counterparty, or (b) merger with or into, or sale of substantially all of the assets to, an unaffiliated third party.

Sale of Vessels and Sale of Rights to Navios Partners:.Upon the sale of vessels to Navios Partners, Navios Holdings recognizes the gain immediately in earnings only to the extent of the interest in Navios Partners owned by third parties and defers recognition of the gain to the extent of its own ownership interest in Navios Partners (the deferred gain). Subsequently, the deferred gain is amortized to income over the remaining useful life of the vessel. The recognition of the deferred gain is accelerated in the event that (i) the vessel is subsequently sold or otherwise disposed of by Navios Partners or (ii) the Company s ownership interest in Navios Partners is reduced. In connection with the public offerings of common units by Navios Partners, a pro rata portion of the deferred gain is released to income upon dilution of the Company s ownership interest in Navios Partners. As of March 31, 2011 and December 31, 2010, the unamortized deferred gain for all vessels and rights sold totaled $36.4 million and $38.6 million, respectively, and for the three months ended March 31, 2011 and March 31, 2010, Navios Holdings recognized $2.2 million and $6.8 million, respectively, of the deferred gain in Equity in net earnings of affiliated companies .

The deferred gain recognized in equity in earnings in connection with the public offerings of Navios Partners common units relates to gains that initially arose from the sale of vessels by Navios Holdings to Navios Partners. Upon the sale of vessels to Navios Partners, Navios Holdings recognizes the gain immediately in earnings only to the extent of the interest in Navios Partners owned by third parties and defers recognition of the gain to the extent of its own ownership interest in Navios Partners (the deferred gain). Subsequently, the deferred gain is amortized to income over the remaining useful life of the vessel. The recognition of the deferred gain is accelerated in the event that (i) the vessel is subsequently sold or otherwise disposed of by Navios Partners or (ii) the Company s ownership interest in Navios Partners is reduced. In connection with above mentioned Navios Partners public offerings, a pro rata portion of the deferred gain was released to income upon dilution of the Company s ownership interest in Navios Partners.

Purchase of Shares in Navios Acquisition: During 2010, Navios Holdings purchased 6,337,551 shares of Navios Acquisition s common stock for $63.2 million in open market purchases. Moreover, on May 28, 2010, certain shareholders of Navios Acquisition redeemed 10,021,399 shares pursuant to redemption rights granted in Navios Acquisition s IPO upon de- SPAC -ing. As of May 28, 2010, following these transactions, Navios Holdings owned 12,372,551 shares, or 57.3%, of the outstanding common stock of Navios Acquisition. At that date, Navios Holdings acquired control over Navios Acquisition, consequently concluded a business combination had occurred and consolidated the results of Navios Acquisition from that date onwards. As a result of gaining control, Navios Holdings recognized the effect of $17.7 million, which represents the fair value of the shares that exceed the carrying value of the Company s ownership of 12,372,551 shares of Navios Acquisition s common stock, in the statements of operations under Gain on change in control . On November 19, 2010, following Navios Acquisition public offering of 6,500,000 shares of common stock at $5.50 per share, Navios Holdings interest in Navios Acquisition decreased to 53.7%.

Pursuant to the Exchange Agreement signed on March 30, 2011, Navios Holdings completed the Navios Acquisition Share Exchange, whereby Navios Holdings exchanged 7,676,000 shares of Navios Acquisition s common stock it held for 1,000 non-voting Series C Convertible Preferred Stock of Navios Acquisition.

As of March 30, 2011 and onwards, following this transaction, Navios Holdings owned 18,331,551 shares or 45% of the outstanding voting stock of Navios Acquisition. As a result, from March 30, 2011, Navios Acquisition is considered as an affiliate entity of Navios Holdings and is not a controlled subsidiary of the Company, and the investment in Navios Acquisition is now accounted for under the equity method due to the Company s significant influence over Navios Acquisition. From March 30, 2011, Navios Acquisition is being accounted for under the equity method based on Navios Holdings 53.7% economic interest since the preferred stock is considered in substance common stock for accounting purposes.

Acquisition of Eleven Product Tanker and Two Chemical Tanker Vessels: On April 8, 2010, pursuant to the terms and conditions of the Acquisition Agreement by and between Navios Acquisition and Navios Holdings, Navios Acquisition agreed to acquire 13 vessels (11 product tankers and two chemical tankers) plus options to purchase two additional product tankers, for an aggregate purchase price of $457.7 million (see Note 3 to the condensed consolidated financial statements appearing elsewhere in this Form 6-K).

Navios Acquisition Warrant Exercise Program: On September 2, 2010, Navios Acquisition announced the successful completion of its warrant program (the Warrant Exercise Program). Under the Warrant Exercise Program, holders of publicly traded warrants (Public Warrants) had the opportunity to exercise the Public Warrants on enhanced terms through August 27, 2010. Navios Holdings exercised 13,635,000 private warrants for a total $77.0 million in cash. Navios Holdings currently holds no other warrants of Navios Acquisition.

The Navios Holdings Credit Facility: In connection with the VLCC Acquisition, Navios Acquisition entered into a $40.0 million credit facility with Navios Holdings. The $40.0 million facility has a margin of LIBOR plus 300 bps and a term of 18 months, maturing on April 1, 2012. Following the issuance of the Notes in October 2010, Navios Acquisition prepaid $27.6 million of this facility. Pursuant to an amendment in October 2010, the facility will be available for multiple drawings up to a limit of $40.0 million. As of March 31, 2011, the outstanding amount under this facility was $12.4 million.

Quantitative and Qualitative Disclosures about Market Risks

Navios Holdings is exposed to certain risks related to interest rate, foreign currency and charter rate risks. To manage these risks, Navios Holdings uses interest rate swaps (for interest rate risk) and FFAs (for charter rate risk).

Interest Rate Risk:

Debt Instruments On March 31, 2011 and December 31, 2010, Navios Holdings had a total of $1,439.3 million and $2,082.1 million, respectively, in long-term indebtedness. The debt is dollar denominated and bears interest at a floating rate, except for the senior notes, the ship mortgage notes and certain Navios Logistics loans discussed Liquidity and Capital Resources that bears interest at a fixed rate.

For a detailed discussion of Navios Holdings debt instruments, refer to section Long-term Debt Obligations and Credit Arrangements included elsewhere in this document.

The interest on the loan facilities is at a floating rate and, therefore, changes in interest rates would affect on their interest rate and related interest expense. The interest rate on the senior notes and the ship mortgage notes is fixed and, therefore, changes in interest rates affect their value, which as of March 31, 2011 was $789.5 million, but do not affect the related interest expense. Amounts drawn under the facilities and the ship mortgage notes are secured by the assets of Navios Holdings and its subsidiaries. A change in the LIBOR rate of 100 basis points would change interest expense for 2011 by $4.4 million.

For a detailed discussion of Navios Holdings debt instruments, refer to section Long-term Debt Obligations and Credit Arrangements included elsewhere in this document.

Foreign Currency Risk

Foreign Currency: In general, the shipping industry is a U.S. dollar dominated industry. Revenue is set mainly in U.S. dollars, and approximately 73.7% of Navios Holdings expenses are also incurred in U.S. dollars. Certain of our expenses are paid in foreign currencies and a one percent change in the exchange rates of the various currencies at March 31, 2011 would increase or decrease net income by approximately $0.8 million.

FFAs Derivative Risk:

Forward Freight Agreements (FFAs) Navios Holdings enters into FFAs as economic hedges relating to identifiable ship and/or cargo positions and as economic hedges of transactions that Navios Holdings expects to carry out in the normal course of its shipping business. By using FFAs, Navios Holdings manages the financial risk associated with fluctuating market conditions. The effectiveness of a hedging relationship is assessed at its inception and then throughout the period of its designation as a hedge. If an FFA qualifies for hedge accounting, any gain or loss on the FFA, as accumulated in Accumulated Other Comprehensive Income, is first recognized when measuring the profit or loss of related transaction. For FFAs that qualify for hedge accounting, the changes in fair values of the effective portion representing unrealized gains or losses are recorded in Accumulated Other Comprehensive Income in the stockholders equity while the unrealized gains or losses of the FFAs not qualifying for hedge accounting together with the ineffective portion of those qualifying for hedge accounting are recorded in the statement of operations under Loss on Forward

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Freight Agreements. The gains included in Accumulated Other Comprehensive Income will be reclassified to earnings under Revenue in the statement of operations in the same period or periods during which the hedged forecasted transaction affects earnings. During the three month period ended March 31, 2011 and 2010, no amounts were included in Accumulated Other Comprehensive Income and reclassified to earnings.

At March 31, 2011 and December 31, 2010, none of the mark to market positions of the open dry bulk FFA contract qualified for hedge accounting treatment. Dry bulk FFAs traded by the Company that do not qualify for hedge accounting are shown at fair value in the balance sheet and changes in fair value are recorded in the statement of operations.

Navios Holdings is exposed to market risk in relation to its FFAs and could suffer substantial losses from these activities in the event expectations are incorrect. Navios Holdings trades FFAs with an objective of both economically hedging the risk on the fleet, specific vessels or freight commitments and taking advantage of short term fluctuations in market prices. As there was no position deemed to be open as of March 31, 2011, any change in underlying freight market indices have had no effect on the net income.

Critical Accounting Policies

The Navios Holdings interim consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires Navios Holdings to make estimates in the application of its accounting policies based on the best assumptions, judgments and opinions of management. Following is a discussion of the accounting policies that involve a higher degree of judgment and the methods of their application that affect the reported amount of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of its financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially result in materially different results under different assumptions and conditions. Navios Holdings has described below what it believes are its most critical accounting policies that involve a high degree of judgment and the methods of their application. For a description of all of Navios Holdings significant accounting policies, see Note 2 to the consolidated financial statements included in Navios Holdings 2010 annual report on Form 20-F filed with the Securities and Exchange Commission and Note 2 to the condensed consolidated financial statements appearing elsewhere in this Form 6-K.

Use of Estimates: The preparation of consolidated financial statements in conformity with the U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an on-going basis, management evaluates the estimates and judgments, including those related to uncompleted voyages, future drydock dates, the carrying value of investments in affiliates, the selection of useful lives for tangible assets, expected future cash flows from long-lived assets to support impairment tests, provisions necessary for accounts receivables, provisions for legal disputes, pension benefits, and contingencies. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions and/or conditions.

Accounting for Derivative Financial Instruments and Hedge Activities: The Company enters into drybulk shipping FFAs as economic hedges relating to identifiable ship and/or cargo positions and as economic hedges of transactions the Company expects to carry out in the normal course of its shipping business. By utilizing certain derivative instruments, including drybulk shipping FFAs, the Company manages the financial risk associated with fluctuating market conditions. In entering into these contracts, the Company has assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts.

The Company also trades drybulk shipping FFAs which are cleared through NOS ASA, a Norwegian clearing house and LCH, the London clearing house. NOS ASA and LCH call for both base and margin collaterals, which are funded by Navios Holdings, and which in turn substantially eliminate counterparty risk. Certain portions of these collateral funds may be restricted at any given time as determined by NOS ASA and LCH.

At the end of each calendar quarter, the fair value of drybulk shipping FFAs traded over-the-counter are determined from an index published in London, United Kingdom and the fair value of those FFAs traded with NOS ASA and LCH are determined from the NOS and LCH valuations accordingly.

The Company records all of its derivative financial instruments and hedges as economic hedges except for those qualifying for hedge accounting. Gains or losses of instruments qualifying for hedge accounting as cash flow hedges are reflected under Accumulated Other Comprehensive Income in stockholders equity, while those instruments that do not meet the criteria for hedge accounting are reflected in the statements of operations. For FFAs that qualify for hedge accounting, the changes in fair values of the effective portion representing unrealized gain or losses are recorded under Accumulated Other Comprehensive Income in stockholders&#14ith either wafer foundry may deteriorate. We cannot assure you that TSMC and UMC will continue to provide us with our products at acceptable yields or in sufficient quantities, for reasonable costs and on a timely basis to meet our customers' needs. A failure to ensure the timely fabrication of our products could cause us to lose customers and could have a material adverse effect on our operating results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We expect our business to be subject to the 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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We are exposed to potential impairment charges on certain assets.

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

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

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

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

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

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

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RISKS RELATING TO OUR COMMON STOCK

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

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

Our common stock has experienced substantial price volatility.

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

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

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

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

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

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

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

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

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

We believe that we have or will have access to capital sufficient to satisfy our working capital requirements for at least the next 12 months. However, it may become necessary for us to raise additional funds to support our growth. We cannot assure you that we will be able to obtain financing when needed or that, if available to us, the terms will be acceptable to us. If we issue equity securities in any financing, the new securities may have rights and preferences senior to our shares of common stock, and the ownership interest in us of our current stockholders will be proportionately reduced. If we issued debt securities, they will rank senior to all equity securities. If we are unable to raise additional capital, we may not be able to implement our growth strategy, and our business could be harmed significantly. Our future capital requirements will depend on many factors, including the amount of revenue we generate, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products, the costs to ensure access to adequate manufacturing capacity, and the continuing market acceptance of our products, and any future business acquisitions that we might undertake. However, if we do not meet our plan, we could be required, or might elect, to seek additional funding through public or private equity or debt financing and additional funds may not be available on terms acceptable to us or at all. We also might decide to raise additional capital at such times and upon such terms as management considers favorable and in the interests of the Company. We may sell up to approximately an additional $120 million of our debt and/or equity securities (before reductions for expenses, underwriting discounts and commissions) under our existing shelf registration statement on Form S-3 which may result in an increase in the number of shares and decline in earnings per share. We may also sell securities pursuant to one 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.

RISKS RELATING TO THE MERGER

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

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

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

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

- our costs and expenses related to the transaction, including legal fees and a portion of the fees of our financial advisor, must be paid even if the Merger is not completed; and

- a failed transaction may result in negative publicity and a negative impression of us in the investment community and may harm our relationships with customers, suppliers, distributors, licensors and employees.

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The Merger may not be completed.

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

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

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

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

- a governmental entity (including a court) has issued an order, decree or ruling or taken any other action (or failed to take an action) that has become final and non-appealable and has the effect of permanently restraining, enjoining or otherwise prohibiting the consummation of the Merger;

- by Broadcom if

  - an Effect that, individually or in the aggregate, has occurred since the date of the Merger Agreement and is continuing that has, or would reasonably be expected to have, a Material Adverse Effect; provided that if the Effect is capable of remediation through the exercise of our reasonable best efforts prior to the End Date, then Broadcom cannot terminate under this provision prior to 30 days following the occurrence of such effect; or

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

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

- the attention of our management may be diverted from day-to-day business operations, possibly leading to a loss of revenues and market position;

- our current and potential customers may delay or cancel purchasing decisions in response to the Merger, resulting in a decline in our revenues;

- our business partners, including suppliers, distributors and licensors, may adversely change or terminate their relationships with us in response to the Merger; and

- our employees may experience uncertainty about their future role with us, harming our ability to attract and retain key management, sales and technical personnel.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

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ITEM 2. PROPERTIES.

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

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

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Market Information for Common Stock

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

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

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

Holders

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

Dividend Policy

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

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

Securities Authorized for Issuance Under Equity Compensation Plans

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

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Performance Graph

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

COMPARISON OF 5 YEARS CUMULATIVE TOTAL RETURN

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

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

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

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

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

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

	December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 258,868	$ 256,167	$ 44,278	$ 96,541	$ 50,689

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

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

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

Overview

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

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

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

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

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

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

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

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Recent Acquisitions

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

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

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

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

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

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Outlook and Challenges

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

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

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

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Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contingent Earn-Out Liability. We have acquired businesses that involve deferred, contingent payments which are based upon achievement of revenues for the acquired business over specified periods and under specified conditions. Under ASC 805, Business Combinations, a liability was recognized at the completion date for each such acquisition equal to the fair value of the acquisition-related contingent consideration based on the probability of achievement of such revenue. Changes in the fair value of such contingent earn-out liabilities subsequent to the acquisition completion date are recognized in earnings in the periods the estimated fair value changes until the amount of such contingent obligation becomes fixed and determinable. In developing these fair value estimates at each reporting period, we consider revenue projections, historical results, general macro-economic environment and industry trends. These fair value measurements are based on significant inputs not observed in the market and reflect our assumptions.

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

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Recent Accounting Pronouncements

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

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

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

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Results of Operations

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

Revenue, cost of revenue and gross profit

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

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

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

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

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Operating expenses

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

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

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

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

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

Acquisition-Related Costs. Acquisition-related costs associated with the Optichron acquisition and our pending acquisition by Broadcom were $10.7 million for the year ended December 31, 2011 and consisted of professional and legal fees of $8.6 million, severance expenses of $0.9 million, pending litigation settlement costs of $0.8 million, and filing fees. The charges during the year ended December 31, 2010 related to the IDT NSE and RMI acquisitions and consisted primarily of accounting and audit fees.

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Other items

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

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

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

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

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

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

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Results of Operations

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

Revenue, cost of revenue and gross profit

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

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

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

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

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Operating expenses

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

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

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

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

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

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

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Other items

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

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

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

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

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

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Liquidity and Capital Resources

Financial Condition

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

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

Commentary on Cash Provided By and Used In 2011 and 2010

Operating Activities

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

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

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

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

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Investing Activities

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

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

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

Financing Activities

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

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

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

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Capital Resources

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

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

Contractual Obligations

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

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

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

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

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Off-Balance Sheet Arrangements

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

Indemnities, Commitments and Guarantees

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

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

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

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

NETLOGIC MICROSYSTEMS, INC.

Index to Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Jose, California
February 15, 2012

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NETLOGIC MICROSYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

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

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

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NETLOGIC MICROSYSTEMS, INC.

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

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

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

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NETLOGIC MICROSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(IN THOUSANDS)

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

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

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NETLOGIC MICROSYSTEMS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

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

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

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

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NETLOGIC MICROSYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

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

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

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

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011

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

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

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

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

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

The Company has made customary representations, warranties and covenants in the Merger Agreement, including, without limitation, covenants not to solicit alternative transactions or, subject to certain exceptions, not to enter into discussions concerning, or provide confidential information in connection with, an alternative transaction, covenants to provide required information to regulatory agencies and to provide other requested cooperation and assistance in connection with the Merger Agreement and the transactions contemplated by it. Broadcom also has made customary representations, warranties and covenants in the Merger Agreement.

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

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
December 31, 2011

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

The Merger Agreement may be terminated under certain circumstances specified in the Merger Agreement including the circumstances where the Merger is not consummated by April 30, 2012 (which we refer to as the "End Date").

The Merger Agreement contains certain termination rights for Broadcom and the Company, and further provides that, upon termination of the Merger Agreement under certain specified circumstances, the Company will be obligated to pay Broadcom a termination fee of $127 million.

Acquisition related cost associated with our pending acquisition by Broadcom were $8.8 million during the year ended December 31, 2011 and consisted of professional and legal fees.

Basis of Presentation
The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
December 31, 2011

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 the Company's products to OEM customers and their contract manufacturers, and to the Company's distributors and international sales representatives. Initial sales of the Company's 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 the Company's products directly from the Company or from the Company's distributors and international sales representatives.

The Company generally recognizes revenue at the time of shipment to OEM customers and their contract manufacturers and the Company's international sales representatives. Product revenue and costs relating to sales made through distributors with rights of returns and price protection are deferred until the distributors sell the product to end customers because the selling price is not fixed or determinable and the Company is not able to estimate future returns. Revenue recognition depends on notification from the distributor that product has been sold to an end customer. On each reporting date the Company records a reduction in accounts receivables and deferred revenue based on the Company's estimate of the margin to be ultimately recognized upon the sale of such products to end customers.

The Company delivers and maintains inventory, or "hubbing" arrangements with certain customers, including our largest customer, Cisco Systems, Inc. ("Cisco"), and its supplier, Wintec Industries ("Wintec"). The Company generally recognizes revenue when the customer, intermediary or third-party warehouse reports it has removed, or pulled, the Company's product from the warehouse to be incorporated into the customers' end products.

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

During the three months ended December 31, 2011, the Company revised its estimate related to recognition of deferred revenue, resulting in approximately $3.0 million of additional revenue being recognized.

Warranty
The Company provides a limited warranty on its products for a period ranging from one to five years from the date of sale. The Company accrues 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.

Cash, Cash Equivalents and Marketable Securities
The Company considers all highly liquid investments purchased with a remaining maturity of three months or less at the date of purchase to be cash equivalents. The Company diversifies its deposits with high credit quality financial institutions. Investments held in money market funds are stated at cost, which approximates market value. Money market funds are readily convertible to cash and are classified as cash equivalents. Marketable securities held by the

Company, which are all available-for-sale investments and carried at fair value, consisted of U.S. treasury and government agency securities. The cost of securities sold is accounted for based on the specific identification method. Marketable securities with remaining contractual maturities on the date of purchase greater than 90 days are classified as short-term even though the contractual maturities may be greater than one year because such investments, which are highly liquid, represent funds available for use in current operations. These investments are monitored for impairment periodically and reductions in carrying value are recorded against earnings when the declines are determined to be other-than-temporary.

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

Long-term Investments

From time to time the Company makes debt and equity investments in non-publicly traded companies. These investments are included in "Other Assets" on the accompanying 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 the Company does not have the ability to exercise significant influence over the respective investee's operating and financial policies and the Company is not the primary beneficiary. One of the investments is considered a variable interest entity and as of December 31, 2011, our maximum exposure to loss was limited to $11.6 million. The Company monitors its available-for-sale debt investments and cost-method equity investments in non-publicly traded companies for impairment on a quarterly basis and records 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.

Risks and Uncertainties and Concentration of Credit Risk

While the Company has achieved profitability in the past, it has reported a net loss for 2011, 2010 and 2009 and has a history of net losses prior to 2005. The Company's ability to remain profitable is dependent upon, among other factors, the rate of growth of the target markets, continued customer acceptance of its products, continued end-user acceptance of its customer's products, the strategic position of its products related to current or future competitors, its ability to develop new products that fulfill customer's specifications, its ability to lower cost of goods sold through yield improvements and its ability to manage expenses. If the Company is unable to achieve profitability, it could be required, or could elect, to seek additional funding through public or private equity or debt financing. Such funds may not be available on terms acceptable to the Company or at all.

The Company depends on a few key customers for a substantial majority of its sales and the loss of, or a significant reduction in orders from any of them would likely significantly reduce revenues. For the years ended December 31, 2011, 2010, and 2009, the Company's top five customers accounted for 57%, 58%, and 68% of total product revenue, respectively. Because of the substantial market share owned by its top five customers, the Company's revenue in the foreseeable future will likely continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that use the Company's products. The Company's revenue would likely decline if one or more of these customers were to significantly reduce, delay or cancel their orders for any reason. In addition, any difficulty associated with collecting outstanding accounts receivable amounts due from its customers, particularly for the top five customers, would harm the Company's financial performance. Because the Company's sales are based upon standard purchase orders and not on long-term contracts, there is no assurance that its customers will continue to purchase its products at current levels, or at all.

NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

The Company purchases all of its semiconductor products from third party foundries. Because future foundry capacity may be limited and because the Company does not have long-term supply agreements with its foundries, it may not be able to secure adequate manufacturing capacity to satisfy the demand for its products. Although the Company presently utilizes multiple foundries for wafers, it relies primarily on one foundry for current generation products. The Company provides the foundries with monthly rolling forecasts of its production requirements. The ability of each foundry to provide wafers to the Company could become limited in the future by the foundry's available capacity. Moreover, the price of the Company's wafers may fluctuate based on changes in available industry capacity. Because the Company does not have long-term supply contracts with any of its foundries, they could choose to prioritize capacity for other customers, particularly larger customers, reduce or eliminate deliveries to it on short notice or increase the prices they charge it. Accordingly, the Company cannot be certain that its foundries will allocate sufficient capacity to satisfy its requirements. If the Company is not able to obtain foundry capacity as required, its relationships with present and future customers would be harmed and its revenue, gross margin and operating results would be materially impacted.

Financial instruments that potentially subject the Company to a concentration of credit risk as of December 31, 2011 consist of cash, cash equivalents, marketable securities and accounts receivable. Deposits held with financial institutions may exceed the amount of insurance provided on such deposits. To date, the Company has not experienced any losses on its deposits of cash, cash equivalents, and marketable securities. The Company's accounts receivable are derived from revenue earned from customers primarily located in North America and Asia. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, does not require collateral. Allowances are typically established for accounts aged over 90 days from the invoice date, unless specific circumstances indicate that the balance is collectible.

The following table summarizes customers comprising 10% or more of the Company's gross accounts receivable for the periods indicated:

	December 31,			
	2011		2010	
Wintec Industries	17	%	31	%
Huawei Technologies	17	%	19	%
Flextronics	10	%	*	

* Less than 10% of gross accounts receivable

The following table summarizes revenue from bill-to customers comprising 10% or more of the Company's revenue for the periods indicated:

	December 31,					
	2011		2010		2009	
Wintec Industries	21	%	25	%	33	%

Huawei Technologies	13	%	11	%	*	
Sanmina Corporation	*		*		14	%

* Less than 10% of net revenue

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

The following table summarizes revenue from end customers comprising 10% or more of the Company's revenue for the periods indicated:

	December 31,					
	2011		2010		2009	
Cisco	23	%	27	%	35	%
Huawei Technologies	13	%	12	%	10	%
Alcatel-Lucent	*		10	%	13	%

* Less than 10% of net revenue

Inventory Valuation and Adverse Purchase Commitments
The Company values its inventories at the lower of cost or market, cost being determined using the weighted average method. The Company records 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 the Company's estimate of the yield that will be achieved, or the percent of good products identified when the product is tested.

Property and equipment
Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leased assets and leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the lease.

The depreciation and amortization periods for property and equipment categories are as follows:

Machinery and equipment	3 years
Software	3 years
Furniture and fixtures	5 years

Long-lived Assets and Intangible Assets
The Company assesses 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, the Company estimates the future undiscounted cash flows expected to be generated by the asset from its use or eventual disposition. If the sum of the expected future undiscounted cash flows, which includes revenue, is less than the carrying amount of those

assets, the Company recognizes 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.

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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. The Company evaluates 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. The Company performs the 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. The Company performs its goodwill impairment assessment at the Company level, which is the sole reporting unit. The Company performed its annual goodwill impairment test in the fourth quarter and concluded there was no impairment of goodwill during the years ended December 31, 2011, 2010, and 2009.

Fair value of financial instruments
Carrying amounts of certain of the Company's financial instruments including cash equivalents, accounts receivable, accounts payable and software license obligations approximate fair value due principally to low interest rates currently available to the Company over the relatively shorter time periods to their respective maturities.

Foreign currency
The functional currency for all of the Company's foreign subsidiaries is the United States dollar. Assets and liabilities denominated in non-U.S. dollars are re-measured into U.S. dollars at end-of-period exchange rates for monetary assets and liabilities, and historical exchange rates for nonmonetary assets and liabilities. Revenue and expenses are re-measured at average exchange rates in effect during the period, except for those revenue and expenses related to the nonmonetary assets and liabilities, which are measured at historical exchange rates. The gains or losses from foreign currency re-measurement are included in other income (expense). Such gains or losses were not material for the years ended December 31, 2011, 2010 and 2009.

Segment Reporting
ASC 280, Segment Reporting, establishes standards for the reporting of information about operating segments, including related disclosures about products and services, geographic areas and major customers. The standard for determining what information to report is based on available financial information that is regularly reviewed and used by the Company's chief executive officer, or CEO, who is the chief operating decision maker in evaluating its financial performance and resource allocation. Based on the criteria stated in ASC 280 for determining separately reportable operating segments and the financial information available to and reviewed by the CEO, the Company has determined that it operates as a single operating and reportable segment.

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Income taxes
The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities 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.

The Company also recognizes liabilities for uncertain tax positions based on a two-step process prescribed in 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 the Company 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 the Company has to determine the probability of various possible outcomes. The Company reevaluates 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.

Computation of net income (loss) per share
The Company computes net income (loss) per share under two methods, basic and diluted. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the sum of the weighted average number of common shares outstanding and potential common shares (when dilutive).

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share data):

	Year ended December 31,		
	2011	2010	2009
Net loss: basic and diluted	$(56,702)	$(66,371)	$(47,162)
Shares used in calculation - basic	69,190	60,426	46,182
Add: dilutive stock options and warrants outstanding	-	-	-
Shares used in calculation - diluted	69,190	60,426	46,182
Net loss per share: basic	$(0.82)	$(1.10)	$(1.02)
Net loss per share: diluted	$(0.82)	$(1.10)	$(1.02)
Antidilutive potential common shares, excluded from diluted per share computation	4,631	5,065	4,256

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NETLOGIC MICROSYSTEMS, INC.

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Advertising costs
Advertising costs are expensed as incurred. Advertising costs were not significant in the years ended December 31, 2011, 2010, and 2009.

Research and development
Research and development costs are expensed as incurred.

Stock-based compensation
The Company estimates 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. When establishing the expected life assumption, the Company reviews, 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 is determined using both 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, the Company's results of operations.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest. Stock-based compensation expense is typically recorded based on the grant date fair value of awards over their requisite service period, on a straight-line attribution method, and after reductions for estimated forfeitures. ASC 718, Compensation – Stock Compensation requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Business Combinations
The Company applies ASC 805, Business Combinations to all its business combinations completed on or after January 1, 2009. The guidance establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The standard provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The standard also provides guidance for recognizing changes in an acquirer’s existing income tax valuation allowances and tax uncertainty accruals that result from a business combination transaction as adjustments to income tax expense.

NETLOGIC MICROSYSTEMS, INC.

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

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

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

NETLOGIC MICROSYSTEMS, INC.

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December 31, 2011

NOTE 2—BUSINESS COMBINATIONS AND ASSET PURCHASE

OPTICHRON, INC.

On April 5, 2011, the Company completed the acquisition of Optichron, Inc. (“Optichron”), a privately-held, fabless semiconductor provider of 3G/4G LTE base station digital front-end processors. Pursuant to the merger agreement, the Company paid initial merger consideration of approximately $77.2 million in cash, of which 12.5%, or approximately $9.6 million, is being held in escrow as recourse for indemnifiable claims and expenses that may arise in the first 18 months following the closing.

Concurrently with the execution of the merger agreement, the Company entered into common stock purchase agreements with three employee-stockholders of Optichron. Under the terms of the stock purchase agreements, the Company purchased all of the fully-vested shares of Optichron common stock held by the employee-stockholders immediately prior to the merger.

Prior to April 5, 2011, the Company owned warrants to purchase 5,250,000 shares of common stock in Optichron, as a cost investment, with a carrying value of $2.1 million. The fair value of those warrants immediately prior to the acquisition date was $6.4 million. Upon acquiring the remaining equity interests of Optichron, the Company recorded a gain of $4.3 million related to the remeasurement of this pre-existing investment under the step-acquisition guidance, which was included in Other Income (Expense) in the Consolidated Statement of Operations.

Under the terms of the merger agreement and the common stock purchase agreements, the Company also may be required to pay additional earn-out consideration to the former Optichron stockholders based on the amount of revenue recognized by the Company from the sale of Optichron products from April 5, 2011 to December 31, 2011 (“first earn-out period”), and in 2012 (“second earn-out period”), in accordance with formulas set forth in the merger agreement. Any portion of the earn-out consideration payable to the three employee-stockholders pursuant to the stock purchase agreements will be paid in shares of common stock of the Company, issuable in equal annual installments over a period of five years after determination of the earn-out amount (in the case of the first earn-out consideration) or four years after determination of the earn-out amount (in the case of the second earn-out consideration), subject to their continuing employment with the Company. The aggregate number of shares issuable to each such employee-stockholder is equal to the cash value of the earn-out consideration that would otherwise have been paid to such person under the merger agreement if his shares of common stock had been converted under the merger agreement (based on the ten trading-day average price of the common stock immediately prior to the closing of the merger, valued at $40.68 per share). Any portion of the earn-out consideration payable to the remaining former Optichron stockholders will be paid in cash. If the maximum earn-out is achieved, additional consideration of approximately $109 million would be payable in cash by March 31, 2013, and additional consideration of approximately $12 million would be payable in shares of the Company’s common stock (valued at $41.90 per share) to the employee-stockholders, subject to their continued employment after the acquisition for a five-year period. The number of shares issuable on current estimates of earn-out achievement is probable, resulting in recognition of stock compensation over their vesting term. As of December 31, 2011, stock compensation associated with an estimated 155,000 shares issuable was recognized; of these shares, approximately 139,000 shares are issuable in March 2012. As these awards contain a performance-based condition, stock-based compensation is being recognized using the graded vesting method.

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Fair Value of Consideration Transferred
The fair value of total purchase consideration paid for 100% of Optichron's equity interest as of the date of completion of the acquisition was as follows (in thousands):

Payments to Optichron stockholders in cash	$77,188
Acquisition-related contingent consideration	43,475
Fair value of pre-existing investment in Optichron	6,412
Other adjustments	(747)
Total	$126,328

In accordance with ASC 805, Business Combinations, a liability was recognized for the estimated merger date fair value of the acquisition-related contingent consideration based on the probability of the achievement of the earn-out milestones for revenues from the acquired business. Changes in the fair value of the acquisition-related contingent consideration subsequent to the merger date are recognized in earnings in the periods in which an estimated fair value changes until the contingent obligations become fixed and determinable.

The estimated initial earn-out liability included in the purchase price was based on our probability assessment at the time of closing of Optichron's revenue achievements during the earn-out periods. In developing these estimates, the Company considered the revenue projections of Optichron management, Optichron's historical results, the general macro-economic environment and industry trends. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement as defined by ASC 820, Fair Value Measurements and Disclosures. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value - see Note 12 for details. The Company estimated that the resulting earn-out consideration was $43.5 million, excluding the portion payable to the three employee-stockholders.

Under the merger agreement, the Company assumed employee retention restricted stock units awards representing the future right to acquire approximately 548,000 shares of the Company's common stock of which approximately 62,000 shares vested on the close of the merger and 486,000 shares generally vest over five years from the close of the merger, subject to the continued employment of the employee with the Company. The Company recorded the additional stock-based compensation expense of $2.6 million relating to the fully vested shares of common stock during the three months ended June 30, 2011. Stock-based compensation expense associated with the assumed incentive awards that are subject to future service requirements are being recognized over the vesting period using the straight-line attribution method.

NETLOGIC MICROSYSTEMS, INC.

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Allocation of Consideration Transferred
The total purchase price was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their fair values as of the date of completion of the acquisition as follows (in thousands):

Net tangible assets	$7,304
Settlement of pre-existing relationship	(2,847)
Amortizable intangible assets:	
Existing technology	24,700
Patents and core technology	10,100
Customer relationships	9,400
Tradename and trademarks	110
Backlog	4,800
Indefinite-lived intangible asset:	
In-process research and development	16,000
Deferred tax assets, net	2,137
Goodwill	54,624
Total	$126,328

Inventories are required to be measured at fair value as of the date of the completion of the acquisition. The fair value of inventory of $2.9 million was based on assumptions applied to the Optichron acquired inventory balance. In estimating the fair value of finished goods and work-in-progress inventory, the Company made assumptions about the selling prices and selling cost associated with the inventory. The Company assumed that selling prices are consistent with those reflected in acquired backlog and that selling costs will be nominal.

Existing technology consisted of products which have reached technological feasibility and relate to Optichron's digital front-end processors. The value of the existing technology was determined by discounting estimated future net cash flows of these products. The Company is amortizing the existing technology on a straight-line basis over an estimated life of 7 years.

Patents and core technology relate to know-how that is used and expected to be used in existing and future products. The fair value was determined by discounting estimated future net cash flows of these products. The Company is amortizing the patents and core technology asset on a straight-line basis over an estimated life of 8 years.

Customer relationships relate to the Company's ability to sell existing and future versions of products to existing Optichron customers. The fair value of the customer relationships was determined by discounting estimated future net cash flows from the customer contracts. The Company is amortizing customer relationships on a straight-line basis over an estimated life of 7 years.

Tradename and trademarks represent the Optichron brand. The fair value of tradename and trademarks was determined by estimating a benefit from owning the asset rather than paying a royalty to a third party for the use of the asset. The Company is amortizing the asset on a straight-line basis over an estimated life of 1 year.

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NETLOGIC MICROSYSTEMS, INC.

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The backlog fair value relates to the estimated selling cost to generate backlog at April 5, 2011. The backlog fair value was amortized over an estimated life of 4 1/2 months. The backlog fair value was fully amortized during the three months ended September 30, 2011.

In-process research and development ("IPRD") consisted of the in-process project to complete development of the next generation of digital front-end processors. The value assigned to IPRD was determined by considering the importance of products under development to the overall development plan, estimating costs to develop the purchased IPRD into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. The discount rate used in the present value calculations was derived from a weighted-average cost of capital analysis, adjusted to reflect additional risks related to the product's development and success as well as the product's stage of completion. Acquired IPRD assets are initially recognized at fair value and are classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. Accordingly, during the development period after the acquisition date, this asset will not be amortized as charges to earnings, but instead will be subject to periodic impairment testing. Upon successful completion of the development process for the acquired IPRD project, the asset would be considered a finite-lived intangible asset and amortization of the asset will commence. As of the acquisition closing date, the acquisition development of the third generation of digital front-end processors was estimated to be approximately 50% complete. The expected completion date is in mid-2012. Validation, testing and further re-work may be required prior to achieving volume production which is anticipated to occur in 2013. The estimated incremental cost to complete this IPRD project is approximately $2.5 million.

Deferred tax assets and liabilities associated with the estimated fair value adjustments of assets acquired and liabilities assumed were recorded using the estimated weighted average statutory tax rate in the jurisdictions where the fair value adjustments occurred.

Of the total estimated fair value of consideration transferred, approximately $54.6 million has been allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying tangible and intangible assets acquired and liabilities assumed, and is not deductible for income tax purposes. Among the factors that contributed to a purchase price in excess of the fair value of the net tangible and intangible assets were the acquisition of an assembled workforce of experienced semiconductor engineers and, synergies in products, technologies, skill-sets, operations, customer base and organizational cultures that can be leveraged to enable the Company to build an enterprise greater than the sum of its parts. In accordance with ASC 350 Intangibles – Goodwill and Other, goodwill will not be amortized but instead will be tested for impairment at least annually and more frequently if certain indicators of impairment are present. In the event management determines that the value of goodwill has become impaired, the Company will record an expense for the amount impaired during the fiscal quarter in which the determination is made.

Prior to the closing date of the acquisition, Optichron initiated the termination of certain employment and other contractual arrangements. The Company has determined that these transactions were separate from the business combination because the termination actions were taken by Optichron in contemplation of the merger. Therefore, the Company recognized termination costs of $0.9 million as an expense on the acquisition date, which is included in acquisition-related cost in the Statement of Operations. Of this total amount, severance costs of $0.7 million were paid by Optichron prior to the closing date, and $0.2 million were paid by the Company after the closing date.

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RMI CORPORATION

On October 30, 2009, the Company completed the acquisition of RMI Corporation ("RMI"), a provider of high-performance and low-power multi-core, multi-threaded processors. Pursuant to the Agreement and Plan of Merger Reorganization by and among the Company, Roadster Merger Corporation, RMI and WP VIII Representative LLC dated as of May 31, 2009, or the merger agreement, on October 30, 2009, Roadster Merger Corporation was merged with and into RMI, and the Company delivered merger consideration of approximately 9.9 million shares of the Company's common stock and $12.6 million cash to the paying agent for distribution to the holders of RMI capital stock. Approximately 10% of the shares of merger consideration common stock were held in escrow as security for claims and expenses that might have arisen during the first 12 months following the closing date and were subsequently released to the former holders of RMI capital stock in October 2010. Under the merger agreement, the Company loaned $15.0 million to RMI pursuant to a secured promissory note bearing interest at a 10% annual rate. Additionally, in December 2010, the Company issued approximately 2.4 million shares of its common stock and $11.5 million cash to the former holders of RMI capital stock as earn-out consideration based upon the Company's achievement of specified percentage of revenue targets for the 12-month period from November 1, 2009 through October 31, 2010.

Fair Value of Initial Consideration Transferred

Issuance of NetLogic common stock to RMI preferred shareholders	$188,527
Payments to RMI common shareholders in cash	12,582
Acquisition-related contingent consideration	9,679
Other adjustments	(837)
Total	$209,951

In accordance with ASC 805, Business Combinations, a liability was recognized for the estimated merger date fair value of the acquisition-related contingent consideration based on the probability of the achievement of the revenue target. Changes in the fair value of the acquisition-related contingent consideration subsequent to the merger date, such as changes in the Company's estimate of the revenue expected to be achieved and changes in their stock price, were recognized in earnings in the period the estimated fair value changes – see Note 12 for details. The fair value estimate assumed probability-weighted revenues were achieved over the earn-out period.

The estimated initial earn-out liability was based on the Company's probability assessment of RMI's revenue achievements during the earn-out period. In developing these estimates, the Company considered the revenue projections of RMI management, RMI's historical results, and general macro-economic environment and industry trends. This fair value measurement is based on significant revenue inputs not observed in the market and thus represents a Level 3 measurement as defined by ASC 820, Fair Value Measurements and Disclosures. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. The Company assumed a probability-weighted revenue achievement of approximately 80% of target. The Company determined that the resulting earn-out consideration would be 489,000 shares of its common stock and cash payment of approximately $0.4 million. The Company then applied its closing stock price of $19.01 as of October 30, 2009 to the 489,000 shares and added $0.4 million to arrive at an initial earn-out liability of $9.7 million – see Note 12 for details.

NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

As retention incentive awards under the definitive agreement the Company (i) issued 488,536 fully vested shares of its common stock to specified former RMI employees at the closing date for services through the consummation of the merger, (ii) granted restricted stock units representing the rights to acquire a total of 573,746 shares of common stock to employees of RMI that will vest over the first 12 months of post-closing employment with the Company, and (iii) granted restricted stock units representing the rights to acquire a total of 1,898,416 shares of common stock and stock options for the purchase of a total of 1,365,046 shares of common stock options to former employees of RMI, subject to vesting and other standard terms determined. The Company did not assume any outstanding stock options or warrants to purchase capital stock of RMI in the merger. The Company recorded the estimated stock-based compensation expense of approximately $9.3 million relating to the 488,536 fully vested shares of common stock during the three months ended December 31, 2009.

Allocation of Consideration Transferred

The acquisition was accounted for as a business combination under ASC 805, Business Combinations. The total purchase price of $210.0 million was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their fair values as of the date of the completion of the acquisition as follows (in thousands):

Net tangible assets	$50,047
Amortizable intangible assets:	
Existing and core technology	71,800
Customer contracts and related relationships	13,800
Composite intangible assets	2,700
Tradenames and trademarks	2,200
Backlog	200
Indefinite-lived intangible asset:	
In-process research and development	46,500
Goodwill	22,704
Total	$209,951

As of the effective date of the merger, inventories are required to be measured at fair value. The fair value of inventory of $37.7 million was based on assumptions applied to the RMI acquired inventory balance. In estimating the fair value of finished goods and work-in-progress inventory, the Company made assumptions about the selling prices and selling cost associated with the inventory. The Company assumed that estimated selling prices would yield gross margins consistent with actual margins earned by RMI during the first half of 2009. The Company assumed that selling cost as a percentage of revenue would be consistent with actual rates experienced by RMI during the first half of 2009.

Existing and core technology consisted of products which have reached technological feasibility and relate to the multi-core, multi-threaded processing products (XLR and XLS processors) and the ultra low-power processing products (Au 1xxx). The value of the developed technology was determined by discounting estimated net future cash flows of these products. The Company is amortizing the existing and core technology on a straight-line basis over estimated lives of 4 to 7 years.

Customer contracts and related relationships relate to the Company's ability to sell existing and future versions of products to existing RMI customers. The fair value of the customer contracts and related relationships was determined by discounting estimated net future cash flows from the customer contracts. The Company is amortizing customer contracts and related relationships on a straight-line basis over an estimated life of 10 years.

NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Composite intangible assets relate to matured legacy products. The fair value of the developed technology was determined by discounting estimated net future cash flows of these products. The Company is amortizing the composite intangible assets on a straight-line basis over an estimated life of 2 years.

Tradename and trademarks represents various RMI brands, registered product names and marks. The fair value of tradename and trademarks was determined by estimating a benefit from owning the asset rather than paying a royalty to a third party for the use of the asset. The Company is amortizing the asset on a straight-line basis over an estimated life of 3 years.

The backlog fair value relates to the estimated selling cost to generate backlog at October 30, 2009. The fair value of backlog at closing was amortized over an estimated life of 6 months.

In-process research and development, or IPRD, consisted of the in-process project to complete development of the XLPTM processor. The value assigned to IPRD was determined by considering the importance of products under development to the overall development plan, estimating costs to develop the purchased IPRD into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. This methodology is referred to as the income approach, which discounts expected future cash flows to present value. The discount rate used in the present value calculations was derived from a weighted-average cost of capital analysis, adjusted to reflect additional risks related to the product's development and success as well as the product's stage of completion. Acquired IPRD assets are initially recognized at fair value and are classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. Accordingly, during the development period after the acquisition date, these assets will not be amortized as charges to earnings; instead this asset will be subject to periodic impairment testing. The Company received and sampled first silicon on this product and in October 2010 has determined that the project is complete. The asset was re-designated a finite-lived intangible asset within the patent and core technology category and amortization of the asset commenced in November 2010 over an expected useful live of 10 years.

Deferred tax assets and liabilities associated with the estimated fair value adjustments of assets acquired and liabilities assumed was recorded using the estimated weighted average statutory tax rate in the jurisdictions where the fair value adjustments occurred.

Of the total estimated purchase price paid at the time of acquisition, approximately $22.7 million has been allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying tangible and intangible assets acquired and liabilities assumed, and is not deductible for tax purposes. Among the factors that contributed to a purchase price in excess of the fair value of the net tangible and intangible assets was the acquisition of an assembled workforce of experienced semiconductor engineers, synergies in products, technologies, skillsets, operations, customer base and organizational cultures that can be leveraged to enable the Company to build an enterprise greater than the sum of its parts. In accordance with ASC 350 Intangibles—Goodwill and Other, goodwill will not be amortized but instead will be tested for impairment at least annually and more frequently if certain indicators of impairment are present. In the event that management determines that the value of goodwill has become impaired, the Company will record an expense for the amount impaired during the fiscal quarter in which the determination is made.

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In connection with the acquisition of RMI, the Company entered into non-competition agreements with certain employees of RMI with a value of approximately $0.4 million. These non-competition agreements were negotiated as part of the acquisition, and as such, the fair value of these agreements is accounted for as a transaction separate from the business combination. Non-competition agreements are valued by determining the difference in net future cash flows with and without the covenant not to compete. The Company is amortizing the assets on a straight-line basis over an estimated life of 2.5 years.

Prior to the close of the acquisition, RMI initiated a restructuring plan under which the employment of some RMI employees was terminated upon the close of the merger. The Company has determined that the restructuring plan was a separate plan from the business combination because the plan to terminate the employment of certain employees was in contemplation of the merger. Therefore, the full severance cost of $0.9 million was recognized by the Company as an expense on the acquisition date. The severance costs comprised of $0.4 million, which was paid by RMI to the terminated employees prior to the close, and $0.5 million which was paid after the merger by the Company.

INTEGRATED DEVICE TECHNOLOGY, INC., NETWORK SEARCH ENGINE BUSINESS
On July 17, 2009, the Company purchased intellectual property and other assets relating to the network search engine business of IDT, which is referred to as the "IDT NSE Acquisition", for $98.2 million in cash, net of a price adjustment based on a determination of the actual amount of inventory received, pursuant to an Asset Purchase Agreement dated April 30, 2009. The Company acquired the IDT NSE Assets to further expand its existing portfolio of knowledge-based processors, NETLite processors and network search engines, and to further strengthen the relationships with its customer base.

Allocation of Consideration Transferred
The acquisition was accounted for as a business combination under ASC 805 Business Combinations. The estimated total purchase price of $98.2 million was allocated to the net tangible and intangible assets based on their fair values as of the date of the completion of the acquisition as follows (in thousands):

Inventory	$13,256
Composite intangible assets	62,800
Supply agreement	872
Goodwill	21,253
Total	$98,181

As of the effective date of the acquisition, inventories are required to be measured at fair value. The fair value of inventory of $13.3 million was based on assumptions applied to the IDT NSE inventory acquired. In estimating the fair value of inventory, the Company made assumptions about projected selling prices and the remaining selling and manufacturing efforts associated with the inventory.

In conjunction with the IDT NSE Acquisition, the Company entered into a supply agreement with IDT. The supply agreement allows the Company to source certain finished products from IDT generally at its cost for a contracted period of time. IDT's pricing to the Company was considered to be below market price in most cases. Accordingly, the

Company recorded an asset upon the signing of the agreement representing the difference between IDT prices and estimated market prices for those products based on quantities they currently estimate they will purchase under the supply agreement. The Company will amortize the asset associated with the supply agreement and increase its inventory carrying value as products are purchased under the supply agreement.

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Composite intangible assets consist of products which have reached technological feasibility and include search accelerator, network search engine and route accelerator product families. The value of the developed technology was determined by discounting estimated net future cash flows of these products. Composite intangible assets consisted of acquired IDT existing technology and customer relationships. Because no future products were planned in the business acquired, and market participants would continue to sell products solely under existing relationships until the products became obsolete, both components of the asset were deemed to have the same useful lives and were treated as a composite asset. There are six composite assets, each represented by a product line with its own fair value supported by an underlying cash flow projection. Their respective useful lives of two to nine years were based on the period of remaining significant cash flow streams by product. The Company is amortizing these composite intangible assets on a straight-line basis over the respective estimated lives.

Amortization of composite intangible assets has been included in cost of revenue.

Of the total estimated purchase price paid at the time of acquisition, approximately $21.3 million has been allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets and which is deductible for tax purposes in tax jurisdictions where the Company pays taxes. Among the factors that contributed to a purchase price in excess of the fair value of the net tangible and intangible assets were expected benefits from economies of scale by combining the IDT NSE assets with the Company's business. In accordance with ASC 350 Intangibles—Goodwill and Other, goodwill is not being amortized, but instead will be tested for impairment at least annually and more frequently if certain indicators of impairment are present. In the event that management determines that the value of goodwill has become impaired, the Company will record an impairment charge during the fiscal quarter in which the determination is made.

Included in the Company’s consolidated statement of operations for the year ended December 31, 2011, were revenues of approximately $20.0 million from the sale of Optichron products since its acquisition date in 2011, and for the year ended December 31, 2009, were revenues of approximately $30.7 million from the sale of RMI and IDT NSE products since their respective acquisition dates in 2009.

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Pro Forma Data for Acquisitions
The following table presents the unaudited pro forma results of the Company as though the Optichron, RMI and IDT NSE acquisitions described above occurred as of January 1, 2009. The data below includes the historical results of the Company and each of these acquisitions on a standalone basis through the respective acquisition closing dates. Such historical results included acquisition-related costs totaling $2.0 million recorded by Optichron in 2011, and $2.0 million recorded by RMI in 2009, as well as restructuring and impairment charges totaling $3.1 million and $2.4 million during 2009 recorded by IDT prior to the Company's acquisition of the NSE business. Adjustments have been made for the estimated fair value adjustment related to acquired inventory, amortization of intangible assets, and the related income tax impact of the pro forma adjustments. No adjustments were made to interest and related expenses associated with debt financing of these acquisitions or for changes in the fair value of the contingent earn-out liabilities recorded by the Company in the periods presented. The pro forma information presented does not purport to be indicative of the results that would have been achieved had these acquisitions been made as of January 1, 2009 nor of the results which may occur in the future (in thousands, except per share data).

	Year Ended December 31,		
	2011	2010	2009
Revenue	$408,943	$391,902	$257,990
Net loss	(58,563)	(78,928)	(105,378)
Net loss per share - basic and diluted	(0.84)	(1.31)	(1.92)

NOTE 3—GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the activity related to the carrying value of goodwill during the periods presented (in thousands):

	December 31,	
	2011	2010
Beginning balance	$112,700	$112,700
Optichron acquisition (Note 2)	54,624	-
Other adjustments (Note 7)	(564)	-
Ending balance	$166,760	$112,700

As of December 31, 2011 and December 31, 2010, goodwill represented approximately 22% and 16% of the Company’s total assets.

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The following table summarizes the components of other intangible assets and related accumulated amortization balances as of the dates presented (in thousands):

	December 31, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets:						
Developed technology	$36,880	$ (35,518)	$1,362	$36,880	$ (28,794)	$8,086
Composite intangible asset	74,046	(32,695)	41,351	74,046	(22,176)	51,870
Patents and core technology	159,940	(49,066)	110,874	125,140	(23,371)	101,769
Customer relationships	30,100	(9,757)	20,343	20,700	(6,006)	14,694
Tradenames and trademarks	2,310	(1,671)	639	2,200	(856)	1,344
Non-competition agreements	400	(347)	53	400	(187)	213
Intellectual property licenses	3,472	(1,133)	2,339	3,472	(610)	2,862
In-process resarch and development	16,000	-	16,000	-	-	-
Total	$323,148	$ (130,187)	$192,961	$262,838	$ (82,000)	$180,838

The following table presents details of the amortization of intangible assets included in the cost of revenue and operating expenses categories for the periods presented (in thousands):

	Year ended December 31,		
	2011	2010	2009
Cost of revenue	$48,260	$39,458	$18,865
Operating expenses:			
Selling, general and administrative	4,727	3,652	1,759

As of December 31, 2011, the estimated future amortization expense of other intangible assets is as follows (in thousands):

Fiscal Year Ending	Estimated Amortization
2012	$ 41,630
2013	35,160
2014	22,217
2015	20,180
2016	18,915

Thereafter	38,859
Total	$ 176,961

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NOTE 4—BALANCE SHEET COMPONENTS:

The following table summarizes the significant components of assets as of December 31, 2011 and 2010 (in thousands):

	December 31,	
	2011	2010
Accounts receivables:		
Trade accounts receivables	$38,368	$20,186
Less: Allowance for doubtful accounts	(179)	(357)
	$38,189	$19,829
Inventories:		
Finished goods	$15,682	$18,971
Work-in-progress	19,369	17,319
	$35,051	$36,290
Property and equipment, net:		
Machinery and equipment	$20,170	$12,347
Software	35,685	24,928
Furniture and fixtures	1,141	998
Leasehold improvements	1,495	790
	58,491	39,063
Less: Accumulated depreciation and amortization	(28,376)	(18,556)
	$30,115	$20,507
Other assets:		
Deferred tax assets, non current	$22,028	$54,920
Long-term investments	18,093	7,676
Other assets	2,352	3,776
	$42,473	$66,372

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2011, 2010 and 2009 was $13.3 million, $8.9 million, and $4.3 million, respectively.

As of December 31, 2011 and 2010, long-term investments consisted of cost-method equity investments of $10.2 million and $2.6 million, respectively, and available-for-sale debt investments in non-publicly traded companies of $7.9 million and $5.0 million, respectively. The carrying values of the cost-method equity investment exceeded their fair values as of the respective dates.

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The following table summarizes the significant components of liabilities as of December 31, 2011 and 2010 (in thousands):

	December 31,	
	2011	2010
Accrued Liabilities:		
Acrrued payroll and related expenses	$12,989	$11,219
Accrued inventory purchases	678	1,967
Accrued software licenses	1,238	4,232
Accrued warranty	485	2,270
Other accrued expenses	8,582	8,160
	$23,972	$27,848
Other Liabilities:		
Income taxes	$32,634	$35,434
Other liabilities	5,641	2,348
	$38,275	$37,782

The Company periodically evaluates its estimate for warranty exposure based on historical trends and includes the effects of such adjustments in cost of revenue in its Consolidated Statement of Operations. The following table summarizes the activity related to the product warranty liability for the periods presented (in thousands):

	December 31,	
	2011	2010
Warranty accrual:		
Beginning balance	$2,270	$1,534
(Release of) provision for warranty	(1,687)	1,089
Settlements made during the period	(98)	(353)
Ending balance	$485	$2,270

During the year ended December 31, 2011, the Company evaluated its historical claims experience, which had improved over the past several years, and revised its estimate for warranty expense.

NOTE 5—COMMON STOCK:

The Company's restated certificate of incorporation authorizes it to issue 200,000,000 shares of $0.01 par value per share Common Stock.

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

11, 2011, the Company amended its stockholder rights plan in order to ensure that neither the approval, execution, delivery or performance of the Merger Agreement, the public disclosure of the Merger Agreement and the transactions contemplated thereby, nor the consummation of the Merger or any of the transactions contemplated by the Merger Agreement, will trigger the distribution of rights under the plan.

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Significant Equity Transactions
On March 25, 2010, the Company entered into an underwriting agreement with Credit Suisse Securities (USA) LLC and Morgan Stanley & Co. Incorporated, as representatives of the several underwriters named in the underwriting agreement, and stockholders of the Company identified in the underwriting agreement, relating to the sale in a public offering of the Company's common stock, par value $0.01 per share, at a public offering price of $28.85 per share, less discounts and commissions of $1.37 per share. Under the terms and conditions of the underwriting agreement, the Company issued and sold approximately 4.1 million shares and received $111.7 million in cash, after payment of related underwriting commissions and expenses. The offering was made pursuant to an automatic shelf registration statement.

In December 2009, the Company entered into a Purchase Agreement with an asset management firm, providing for the sale and issuance of a total of 1,400,800 shares of its common stock. Pursuant to the Purchase Agreement, the asset management firm agreed on behalf of a group of customers for which it acted as investment manager to purchase, and the Company agreed to sell and issue, the shares at a purchase price per share of $21.13 according to the allocation specified in the Purchase Agreement. The sale closed on December 23, 2009, and the Company received net proceeds of $29.7 million, after deducting offering expenses of approximately $0.1 million.

In connection with the acquisition of RMI, the Company delivered merger consideration of approximately 9.9 million shares of common stock to the paying agent for distribution to the holders of RMI capital stock. Approximately 10% of the shares of the Company's common stock were held in escrow as security for claims and expenses that might have arisen during the first 12 months following the closing date and were subsequently released to the former holders of RMI capital stock in October 2010. The closing price of a share of the Company's common stock on October 30, 2009 was $19.01. Subsequently, in December 2010, the Company issued approximately 2.4 million additional shares of its common stock (plus cash, refer to Note 2 Business Combinations and Asset Purchase) to the former holders of RMI capital stock as earn-out consideration based upon achievement of specified percentages of revenue targets for the 12-month period from November 1, 2009 through October 31, 2010. Additionally, in connection with the merger, and pursuant to NASDAQ Listing Rule 5635(a), the Company granted from its total authorized shares, and not pursuant to a pre-existing stock plan, restricted stock units representing the right to acquire a total of 2,472,162 shares of common stock and stock options for the purchase of a total of 1,365,046 shares of common stock to those employees of RMI who continued as employees of the Company or one of its subsidiaries.

Registration Statements
The Company has an effective shelf registration statement on SEC Form S-3 that will not expire until October 2012. Other than 1,400,800 shares of the Company’s common stock sold in December 2009 for approximately $29.7 million, as discussed above, no other securities have been issued pursuant to this registration statement. The registration statement on Form S-3 currently permits the Company to sell, in one or more public offerings, shares of its common stock, shares of preferred stock or debt securities, or any combination of such securities, for proceeds in an aggregate amount of up to approximately $120 million. However, any such offerings are subject to the terms and conditions of the Broadcom Merger Agreement – see Note 1 for details.

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NOTE 6—STOCK OPTION PLANS:

The Company has adopted stock plans that provide for grants to employees of equity-based awards, which include stock options and restricted stock. In addition, the Company has an employee stock purchase plan that allows employees to purchase its common stock at a discount through payroll deductions. The estimated fair value of the Company's equity-based awards, less expected forfeitures, is amortized over the service period of the awards. The Company also grants stock options and restricted stock to new employees in accordance with Nasdaq Marketplace Rule 5635(c)(4) as an inducement material to the new employee's entering into employment with the Company.

The Company's Amended and Restated 2004 Equity Incentive Plan and the 2000 Stock Plan (collectively, the "Plans") provide for the granting of stock options to employees, directors and consultants. Options granted under the Plans may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to the Company's employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to our employees, non-employee directors and consultants. The Company no longer grants options under the 2000 Stock Plan. Restricted stock units and restricted stock may also be granted under the Plans. A total of 15,546,382 shares of common stock have been reserved for awards issuable under the Amended and Restated 2004 Equity Incentive Plan, which further provides for an annual increase of 300,000 shares on each January 1. At December 31, 2011, 1,963,382 shares were available for grant under the Amended and Restated 2004 Equity Incentive Plan, including an increase of 2,700,000 shares under the Amended and Restated 2004 Equity Incentive Plan approved by the Company's stockholders at the Company's 2010 Annual Meeting of Stockholders.

Options under the Plans may be granted for periods of up to ten years. Under the Plans, the exercise price of (i) an ISO shall not be less than 100% of the estimated fair value of the shares on the date of grant, and (ii) an ISO granted to a 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. The exercise price of an NSO under the Amended and Restated 2004 Equity Incentive Plan may be any price as determined by the board of directors. Options granted under the 2000 Stock Plan were exercisable immediately subject to repurchase options held by the Company which lapse over a maximum period of five years at such times and under such conditions as determined by the board of directors. The 2004 Plan also allows for the grant of restricted common stock. No shares of restricted common stock were granted in 2011, 2010 and 2009.

In conjunction with the Aeluros acquisition in October 2007, the Company assumed Aeluros' 2001 Stock Option/Stock Issuance Plan (the "Aeluros Plan"), and reserved 208,000 shares of common stock under the Aeluros Plan for issuance upon exercise of assumed outstanding options. The related options are included in the table below. The options vest over four to five years and have eight to ten year terms. The Company no longer grants options under the Aeluros Plan.

In January 2008, the Company adopted the 2008 New Employee Inducement Incentive Plan (the "2008 Plan") and reserved 500,000 shares of common stock under the 2008 Plan for the granting of nonqualified stock options and restricted units to retain the services of new employees and directors, or following a bona fide period of non-employment, as an inducement material to the individual's entering employment with the Company within the meaning of Rule 5635(c)(4) (formerly Rule 4350(i)(l)(A)(iv)) of the Nasdaq Marketplace Rules. In July 2009, the Company increased the reserve of shares issuable under the 2008 Plan by 500,000 shares. At December 31, 2011, 262,000 shares were available for grant.

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There were no stock options granted during the years ended December 31, 2011 and 2010. A summary of stock options activity under all Plans is presented below (number of shares in thousands):

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2008	8,346	$11.69
Options granted	622	12.46
Options granted - RMI	1,366	19.16
Options exercised	(1,564)	9.92
Options forfeited or expired	(98)	14.77
Balance at December 31, 2009	8,672	13.21
Options exercised	(2,306)	11.97
Options forfeited or expired	(68)	16.54
Balance at December 31, 2010	6,298	13.63
Options exercised	(2,151)	13.53
Options forfeited or expired	(232)	18.85
Balance at December 31, 2011	3,915	13.37

The following table summarizes information related to options outstanding at December 31, 2011 (in thousands, except for contractual life and exercise price data):

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Outstanding (in thousands)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Exercisable (in thousands)	Weighted Average Exercise Price	Aggregate Instrinsic Value (in thousands)
$ 1.00-$6.50	540	2.58	$ 4.99	$ 24,089	540	$ 4.99	$ 24,089
$ 8.50-$10.71	491	4.37	$ 9.88	19,480	482	$ 9.87	19,124
$ 10.94-$11.97	667	6.08	$ 11.38	25,465	379	$ 11.71	14,336
$ 12.23-$13.93	524	5.03	$ 13.52	18,879	512	$ 13.53	18,436
$ 14.35-$15.73	496	5.71	$ 15.23	17,019	486	$ 15.23	16,687
$ 15.75-$18.91	250	5.02	$ 17.48	8,034	238	$ 17.50	7,643
$ 19.16-$19.16	853	4.85	$ 19.16	25,940	514	$ 19.16	15,630
$ 19.67-$20.22	94	7.19	$ 19.74	2,801	93	$ 19.74	2,780
$ 1.00-$20.22	3,915	4.89	$ 13.37	$ 141,707	3,244	$ 12.97	$ 118,725

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The aggregate intrinsic value in the table above is based on the Company's closing stock price of $49.57 as of December 31, 2011, which would have been received by the option holders had all option holders exercised their in-the-money options as of that date. The weighted average remaining contractual term of options exercisable at December 31, 2011 was approximately 4.89 years.

As of December 31, 2011, there was approximately $4.3 million of total unrecognized compensation cost related to unvested stock options granted and outstanding with a weighted average remaining vesting period of 1.9 years.

The total intrinsic value of options exercised for the periods presented were as follows (in thousands):

	Year ended December 31,		
	2011	2010	2009
Total intrinsic value of options exercised	$66,050	$38,730	$15,560

In conjunction with the Optichron acquisition in April 2011, the Company assumed Optichron's 2011 Restricted Stock Unit Plan (the "Optichron Plan"), and reserved 548,000 shares of common stock under the Optichron Plan for issuance upon vesting of assumed outstanding restricted stock unit awards. The related restricted stock unit awards are included in the table below. The restricted stock unit awards generally vest over five years. The Company no longer grants awards under the Optichron Plan.

The Company's non-vested stock awards consist of restricted stock awards, restricted stock units, and performance-based restricted stock units. A summary of non-vested stock awards activity is presented below (number of shares in thousands):

	Awards Outstanding	
	Number of Shares	Weighted-Average Grant Date Fair Value
Balance at December 31, 2008	1,656	$13.83
Granted	1,498	17.94
Granted - RMI	2,472	20.04
Vested	(458)	15.41
Forfeited	(68)	16.52
Balance at December 31, 2009	5,100	17.87
Granted	980	28.95
Vested	(1,172)	17.20
Forfeited	(250)	19.62
Balance at December 31, 2010	4,658	20.27
Granted	1,852	39.09
Granted - Optichron	548	41.90

Vested	(1,742)	19.19
Forfeited	(401)	23.76
Balance at December 31, 2011	4,915	29.88

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As of December 31, 2011, there was $110.4 million of total unrecognized compensation cost related to nonvested stock awards granted, which is expected to be recognized over a weighted average remaining vesting period of 2.28 years. The grant date fair value of stock awards that vested during the years ended December 31, 2011, 2010, and 2009, was $33.5 million, $20.2 million, and $7.1 million, respectively.

2004 Employee Stock Purchase Plan

In July 2004, the Company adopted the 2004 employee stock purchase plan, or ESPP, which complies with the requirements of Section 423 of the Internal Revenue Code. The shares reserved under the 2004 ESPP are subject to an automatic increase on January 1 of each year equal to the lesser of 150,000 shares or 0.5% of the outstanding shares of the Company's common stock at the end of the preceding fiscal year. The 2004 ESPP permits eligible employees (as defined in the plan) to purchase up to $25,000 worth of the Company's common stock annually over the course of two six-month offering periods, other than the initial two-year offering period which commenced on July 8, 2004. The purchase price to be paid by participants is 85% of the price per share of the Company's common stock either at the beginning or the end of each six-month offering period, whichever is less. At the Company's 2006 Annual Meeting of Stockholders held on May 18, 2006, its stockholders approved the reduction in the number of shares reserved under the 2004 ESPP by 1,400,000 shares, and the transfer of those reserved shares to the 2004 Equity Incentive Plan. During the year ended December 31, 2011, 2010 and 2009, approximately 158,000, 193,000, and 132,000 shares, respectively, were issued under the 2004 ESPP, and approximately 271,000 shares remain available for future issuance at December 31, 2011. The 2004 ESPP terminates in May 2014.

Stock-Based Compensation Expense

During the year ended December 31, 2011, the Company corrected a limitation in the calculation of stock-based compensation performed by a third party vendor, and as a result, reduced its compensation expenses by $0.5 million. The change was not material to prior periods and was not material to the current year. The total stock-based compensation expense recognized was allocated as follows (in thousands):

	Year ended December 31,		
	2011	2010	2009
Cost of revenue	$1,056	$915	$672
Research and development	32,822	25,177	21,527
Selling, general and administrative	23,396	21,549	18,556
Total stock-based compensation expense	$57,274	$47,641	$40,755

In addition, the Company capitalized approximately $0.2 million and $0.1 million of stock-based compensation in inventory as of December 31, 2011 and 2010, respectively, which represented indirect manufacturing costs related to its inventory.

During the year ended December 31, 2011, 23,000 restricted stock units were modified to accelerate the vesting of terminated employees, resulting in $0.9 million of stock-based compensation expense.

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Valuation Assumptions

The fair value of each purchase or option granted under all of the Company's Plans, were estimated at the date of grant using the following weighted-average assumptions (there were no stock options granted during the years ended December 31, 2011 and 2010):

	Year ended December 31,					
	2011		2010		2009	
Stock Option Plans:						
Risk-free interest rate	-		-		2.22	%
Expected life of options (in years)	-		-		5.65	
Expected dividend yield	-		-		0.00	%
Volatility	-		-		55	%
Weighted average fair value	-		-		$8.80	
Employee Stock Purchase Plan:						
Risk-free interest rate	0.15	%	0.20	%	0.30	%
Expected life of options (in years)	0.49		0.50		0.50	
Expected dividend yield	0.00	%	0.00	%	0.00	%
Volatility	41	%	43	%	67	%
Weighted average fair value	$9.73		$6.81		$4.57	

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NOTE 7—INCOME TAXES:

The components of loss before income taxes consisted of the following (in thousands):

	Year ended December 31,		
	2011	2010	2009
Domestic	$(20,831)	$(70,416)	$(40,104)
Foreign	3,819	(427)	(10,118)
Loss before income taxes	$(17,012)	$(70,843)	$(50,222)

The components of the provision for (benefit from) income taxes are as follows (in thousands):

	Year ended December 31,		
	2011	2010	2009
Current:			
Federal	$(2,964)	$747	$3,484
State	79	105	(31)
Foreign	718	615	190
Total current	(2,167)	1,467	3,643
Deferred:			
Federal	$27,786	$(4,958)	$(9,574)
State	14,071	(981)	2,871
Foreign	-	-	-
Total deferred	41,857	(5,939)	(6,703)
Provision for (Benefit from) income taxes	$39,690	$(4,472)	$(3,060)

The provision for (benefit from) income taxes differs from the amount computed by applying the U.S. statutory federal rate to income (loss) before income tax as a result of the following (in thousands):

	Year ended December 31,		
	2011	2010	2009
Tax at statutory rate	$(5,954)	$(24,795)	$(17,577)
State taxes, net of federal benefit	74	(570)	2,772
Nondeductible stock based compensation	701	448	1,333
Change in valuation allowance	43,340	-	-
Foreign rate differential	(5,950)	(1,129)	9,598
Research and development credits	-	(3,267)	(1,289)
Nondeductible acquisition related contingent consideration	5,376	25,169	1,887
Nontaxable warrants gain	(1,491)	-	-
Acquisition-related costs	3,446	-	-
Other	148	(328)	216
Total Provision for (Benefit from) income taxes	$39,690	$(4,472)	$(3,060)

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities consist of the following (in thousands):

	December 31,	
	2011	2010
Deferred tax assets:		
Net operating loss carryforwards	$57,884	$32,872
Accrued liabilities and other	6,685	6,487
Deferred stock-based compensation	11,188	10,601
Depreciation and amortization	-	2,891
Research and development tax credits	29,572	21,968
	105,329	74,819
Valuation allowance	(56,783)	(8,483)
Total deferred tax assets	48,546	66,336
Deferred tax liabilities:		
Acquired intangible assets and other	(16,023)	(2,988)
Depreciation and amortization	(8,352)	-
Net deferred tax assets	$24,171	$63,348

The following table presents the breakdown between current and non-current net deferred tax assets and liabilities (in thousands):

	December 31,	
	2011	2010
Current deferred tax assets	$2,144	$8,428
Non-current deferred tax assets	22,027	54,920
Non-current deferred tax liabilities	-	-
Net deferred tax assets	$24,171	$63,348

The valuation allowance is based on the Company's assessment that it cannot conclude that it is more likely than not that certain deferred tax assets will be realized in the foreseeable future. As of December 31, 2011 and December 31, 2010, the Company had a valuation allowance of approximately $56.8 million and $8.5 million, respectively. The Company concluded that a full valuation allowance should be recorded in the U.S. as of December 31, 2011 to the extent that deferred tax assets are not supportable with sources of income like liabilities for uncertain tax positions. In February 2009, California enacted a statutory provision permitting companies to elect, for income tax purposes, to apply a single sales factor apportionment for years beginning after January 1, 2011. Based on its anticipated election, the Company established a valuation allowance on certain deferred tax assets associated with its California research and development tax credits, totaling $8.5 million at December 31, 2010.

The deferred tax assets at December 31, 2011 excluded $25.9 million ($9 million at December 31, 2010) related to benefits of stock option deductions which, when recognized, will be allocated directly to contributed capital.

During the year ended December 31, 2011, the Company corrected its deferred tax liabilities and goodwill related to acquired intangible assets and its international structure.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

At December 31, 2011, the Company had federal and state net operating loss carryforwards of approximately $213.9 million and $151.6 million, respectively. These federal and state net operating loss carryforwards will expire commencing 2020 and 2012, respectively. $3.4 million state net operating loss had expired as of December 31, 2011. The Company also has federal and state research and development tax credit carryforwards of approximately $31.7 million and $34.8 million, respectively. The federal tax credits carryforwards will expire commencing in 2020 and California tax credits have no expiration date.

For federal and state purposes, a portion of our net operating loss and tax credit carryforwards will be subject to certain limitations on annual utilization due to a change in ownership, as defined by federal and state law.

Undistributed earnings of our foreign subsidiaries of approximately $49.4 million at December 31, 2011 are considered to be indefinitely reinvested and, accordingly, no provisions for federal and state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

The following table summarizes the activity related to the Company's unrecognized tax benefits (in thousands):

	December 31,	
	2011	2010
Beginning balance	$51,286	$49,285
Increase related to current year tax positions	6,195	4,038
Decrease related to current year tax positions	-	(1,739)
Increase related to tax positions of prior years	5,479	956
Decrease related to tax positions of prior years	(1,755)	(1,254)
Ending balance	$61,205	$51,286

As of December 31, 2011, a total of $1.9 million of the unrecognized tax benefits would affect the Company's effective tax rate if recognized.

The Company recognized interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2011, 2010, and 2009, the Company had $0.6 million, $0.8 million, and $0.4 million of accrued interest and zero penalties related to uncertain tax positions. The Company recognized total interest expense (benefit) of ($0.3 million), $0.4 million, and ($0.1 million) during the year ended December 31, 2011, 2010, and 2009.

The tax years 2000-2011 remain open to examination by one or more of the major taxing jurisdictions to which the Company is subject to tax on its taxable income. The Company anticipates that it is reasonably possible that approximately $0.3 million of unrecognized tax benefits will decrease within the next 12 months due to the expiration of statute of limitations. The Internal Revenue Service has notified the Company that it will commence an examination of NetLogic's 2007 and 2009 tax returns. The Company is also under audit by the California Franchise Tax Board for its 2006 and 2007 tax returns. The Company believes that it has adequately provided for any reasonably foreseeable adjustment and that any settlement will not have a material effect on its consolidated financial position, results of operations or cash flows.

Our subsidiary in India has received tax benefits under the India Tax Holiday provision. The Tax Holiday in India expired on March 31, 2011. The Company received tax benefits of approximately $0.1 million and $0.3 million in 2011 and 2010 respectively. The impact to earnings per share was not material in 2011 or 2010.

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

NOTE 8—COMMITMENTS AND CONTINGENCIES:

Leases
The Company acquires rights to use certain software engineer design tools under software licenses, accounting for such arrangements similar to capital leases.

The Company also leases its facilities under non-cancelable operating leases, which contain renewal options and escalation clauses, and expire through 2018. The terms of certain facility leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period and accrues for rent expense incurred but not paid. Rent expense for the years ended December 31, 2011, 2010 and 2009 was $4.0 million, $4.1 million, and $1.5 million, respectively.

Future minimum commitments as of December 31, 2011 under non-cancelable software licenses and operating lease agreements, including significant common area maintenance charges for facility leases, were as follows (in thousands):

Year Ending December 31,	Software licenses	Operating Leases	Total
2012	5,459	3,188	8,647
2013	2,187	4,331	6,518
2014	860	4,335	5,195
2015	-	4,468	4,468
2016	-	4,241	4,241
2017 and thereafter	-	6,262	6,262
	8,506	$26,825	$35,331
Less: Interest component	(247)		
Present value of minimum lease payment	8,259		
Less: Current portion	(5,281)		
Long-term portion of obligations	$2,978		

Purchase Commitments
At December 31, 2011, the Company had approximately $11.0 million in firm, non-cancelable and unconditional purchase commitments with its suppliers.

Contingencies
From time to time the Company is a party to claims and litigation proceedings arising in the normal course of business. Currently, the Company does not believe that there are any claims or litigation proceedings involving matters that will result in the payment of monetary damages, that, in the aggregate, would be material in relation to its business, financial position, results of operations or cash flows. There can be no assurance, however, that any such matters will be resolved without costly litigation, in a manner that is not adverse to the Company’s business, financial position, results of operations or cash flows, or without requiring royalty payments in the future that may adversely impact gross margins.

Litigation Regarding the Merger

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

At December 31, 2011, $0.8 million was recognized associated with this pending settlement which was considered probable and has been included in acquisition related costs in the Consolidated Statements of Operations.

Indemnities, Commitments and Guarantees

In the normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include agreements to indemnify the Company's customers with respect to liabilities associated with the infringement of other parties' technology based upon its products, obligations to indemnify or pay damages to our customers for breaches of contractual commitments and product liability or excessive product failure claims, obligations to indemnify lessors under facility lease agreements, and obligations to indemnify the Company's directors and officers to the maximum extent permitted under the laws of the state of Delaware. The Company's obligations under these arrangements may have a material impact on its results of operations, financial condition or cash flows. The duration of such indemnification obligations, commitments and guarantees varies and, in certain cases, is indefinite. The Company has not recorded any liability for any such indemnification obligations, commitments and guarantees in the accompanying balance sheets. The

Company does, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is estimable and probable.

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

NOTE 9—SEGMENT INFORMATION:

The Company operates as one operating and reportable segment and sells its products to customers in North America, Asia and Europe. The components of revenue by geographic regions reported below were based on the customer's ship-to address. The following is a summary of the geographic information related to revenues for the periods presented:

	Year ended December 31,					
	2011		2010		2009	
Revenue:						
China	48	%	38	%	27	%
Malaysia	13	%	26	%	31	%
United States	20	%	18	%	25	%
Other	19	%	18	%	16	%
Total	100	%	100	%	100	%

Substantially all of the Company's tangible assets are located in the United States of America.

NOTE 10—EMPLOYEE BENEFIT PLAN:

The Company sponsors a 401(k) defined contribution plan covering all employees. Contributions made by the Company are determined annually by the Board of Directors. To date, the Company has not made any contributions to the plan.

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

NOTE 11—AVAILABLE-FOR-SALE INVESTMENTS:

The following is a summary of available-for-sale investments as of December 31, 2011 and 2010 (in thousands):

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Investments in:				
Money market funds	$151,761	$-	$-	$151,761
U.S. government agency securities	67,864	13	(1)	67,876
U.S. treasury securities	10,964	1	-	10,965
Privately held debt investments	10,000	-	(2,131)	7,869
Total	$240,589	$14	$(2,132)	$238,471
Reported as:				
Cash and cash equivalents	$151,761	$-	$-	$151,761
Short-term investments	78,828	14	(1)	78,841
Other assets	10,000	-	(2,131)	7,869
Total	$240,589	$14	$(2,132)	$238,471

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Investments in:				
Money market funds	$60,026	$-	$-	$60,026
U.S. government agency securities	153,864	33	(80)	153,817
U.S. treasury securities	16,414	1	(1)	16,414
Privately held debt investments	5,000	-	-	5,000
Total	$235,304	$34	$(81)	$235,257
Reported as:				
Cash and cash equivalents	$74,613	$1	$(1)	$74,613
Short-term investments	155,691	33	(80)	155,644
Other assets	5,000	-	-	5,000
Total	$235,304	$34	$(81)	$235,257

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Excluding money market funds, which do not have stated contractual maturity dates, the fair value of the Company's investments by contractual maturity at December 31, 2011 is as follows (in thousands):

	December 31, 2011
Investments:	
Due in 1 year or less	$ 73,830
Due after 1 year through 5 years	12,880
Total	$ 86,710

Net unrealized holding gains and losses on available-for-sale investments are included in the Consolidated Statement of Comprehensive Loss and is a separate component of stockholders' equity at December 31, 2011.

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

NOTE 12—FAIR VALUE MEASUREMENTS:

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

Fair Value Hierarchy
ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.
Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3—Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

Assets and Liabilities Measured at Fair Value on a Recurring Basis
The Company measures its financial assets, specifically cash equivalents, marketable securities and debt investment in a privately held corporation, and financial liabilities, specifically contingent earn-out liability, at fair value on a recurring basis. There was no outstanding contingent earn-out liability at December 31, 2010. The fair value of these financial assets and liabilities was determined using the following inputs as of December 31, 2011 and 2010 (in thousands):

			Fair Value Measurements at December 31, 2011 Using					
	Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Other Unobserv-able Inputs (Level 3)	
			(in thousands)					
Assets:								
Money market funds	$	151,761	$	151,761	$	-	$	-
U.S. government agency securities		67,876		-		67,876		-
U.S. treasury securities		10,965		-		10,965		-
Privately held debt investments		7,869		-		-		7,869
Total	$	238,471	$	151,761	$	78,841	$	7,869
Liabilities:								
Contingent earn-out liability:								
Current portion	$	51,741	$	-	$	-	$	51,741
Long-term portion		6,193		-		-		6,193
Total	$	57,934	$	-	$	-	$	57,934

			Fair Value Measurements at December 31, 2010 Using					
	Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Other Unobserv-able Inputs (Level 3)	
			(in thousands)					
Assets:								
Money market funds	$	60,026	$	60,026	$	-	$	-
U.S. government agency securities		153,817		-		153,817		-
U.S. treasury securities		16,414		-		16,414		-

Privately held debt investments		5,000		-		-		5,000
Total	$	235,257	$	60,026	$	170,231	$	5,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

The following table summarizes the activity related to the fair value of investments using Level 3 inputs (in thousands):

	December 31, 2011	2010
Privately held debt investments:		
Beginning balance	$5,000	$-
Impairment charge on other investment	(1,276)	-
Reclassification of investment measured at carrying value	(3,724)	-
Purchases of long-term investment	10,000	5,000
Unrecognized loss on available-for-sale investment included in other comprehensive income	(2,131)	-
Ending balance	$7,869	$5,000

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

In developing these estimates at each reporting period, the Company considered its revenue projections, its historical results, the general macro-economic environment and industry trends. This fair value measurement was based on significant inputs not observed in the market and thus represented a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

The Company acquired RMI Corporation ("RMI") on October 30, 2009 and Optichron on April 5, 2011, and the acquisition consideration included contingent earn-out payments – see Note 2 for details.

In December 2010, the Company delivered approximately 2.4 million shares of the Company's common stock and $11.5 million cash as full settlement of its earn-out consideration obligation to the former holders of RMI stock. Thus, the contingent earn-out liability for the RMI acquisition was settled in full as of December 31, 2010.

The Company recognized an initial estimate of the contingent earn-out liability related to Optichron of $43.5 million at the date of completion of the acquisition. The key assumptions behind the estimate were a discount rate of 15% and a probability-weighted level of revenue achievement over the earn-out period. Changes in the fair value of the Optichron contingent earn-out liability subsequent to the acquisition completion date, including changes in the Company's estimate of probability-weighted revenue achievements and discount rate, are recognized in earnings in the periods in which the estimated fair value changes. Increases in the fair value of the contingent earn-out liability since the acquisition date through December 31, 2011 of $14.5 million primarily related to an increase in probability-weighted revenue achievements and the completion of the first earn-out measurement period. The

Company may continue to record significant changes in the fair value of the contingent earn-out consideration through December 31, 2012.

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NETLOGIC MICROSYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2011

The following table summarizes the activity related to contingent earn-out liability for the periods presented (in thousands):

	December 31,	
	2011	2010
Beginning balance	$-	$11,687
Acquisition date fair value measurement against goodwill	43,475	-
Adjustment to fair value measurement charged to net income	14,459	71,725
Settlement of liability in stock	-	(71,884)
Settlement of liability in cash	-	(11,528)
Ending balance	$57,934	$-
Ending balance represented by:		
Optichron acquisition:		
Current portion	$51,741	$-
Long-term portion	6,193	-
	$57,934	$-

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SUPPLEMENTARY FINANCIAL DATA

Selected Quarterly Financial Data (unaudited)

The following table presents selected unaudited consolidated financial data for each of the eight quarters in the two-year period ended December 31, 2011. In the Company's opinion, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of only normal recurring adjustments) necessary for a fair statement of the financial information for the period presented. Net income (loss) per share—basic and diluted, for the four quarters of each fiscal year may not sum to the total for the fiscal year because of the different number of shares outstanding during each period. All share and per share amounts presented below have been retroactively adjusted to reflect the 2-for-1 stock dividend that we paid on March 19, 2010 to stockholders of record as of March 5, 2010.

	Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share data)			
Year Ended December 31, 2011	(restated)	(restated)	(restated)	
Total revenue	$98,669	$ 103,689	$ 106,808	$ 96,247
Gross profit	$60,427	$ 60,468	$ 67,118	$ 60,912
Net income (loss)	$2,045	$ (35,181)	$ 6,486	$ (30,052)
Net income (loss) per share - basic	$0.03	$ (0.51)	$ 0.09	$ (0.43)
Net income (loss) per share - diluted	$0.03	$ (0.51)	$ 0.09	$ (0.43)
Shares used in calculation - basic	68,078	68,686	69,392	70,547
Shares used in calculation - diluted	72,792	68,686	73,581	70,547

	Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share data)			
Year Ended December 31, 2010				
Total revenue	$86,251	$ 95,014	$ 100,052	$ 100,428
Gross profit	$34,920	$ 52,002	$ 59,529	$ 61,867
Net income (loss)	$(57,337)	$ (4,835)	$ 5,209	$ (9,408)
Net income (loss) per share - basic	$(0.99)	$ (0.08)	$ 0.08	$ (0.14)
Net income (loss) per share - diluted	$(0.99)	$ (0.08)	$ 0.08	$ (0.14)
Shares used in calculation - basic	57,993	62,875	63,632	65,155
Shares used in calculation - diluted	57,993	62,875	67,933	65,155

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Restatement Adjustments

In connection with the departure of an officer and the payment of his separation package which occurred in December 2011, the Company determined that the severance benefit should have been recorded as an expense during the three months ended March 31, 2011 rather than when the severance benefits were paid in December 2011. Consequently, cash severance expenses of $384,000, as well as stock compensation expenses of $4,013,000 associated with accelerated vesting of 226,934 common shares with respect to stock options and 126,072 common shares from awards of restricted stock units should have been accrued in a prior period, specifically the three months ended March 31, 2011. There were no impacts on any other quarterly periods.

In addition, the Company is correcting an under accrual of acquisition-related costs, consisting of legal expenses of $723,000 during the three months ended September 30, 2011.

The impact of the errors to the consolidated balance sheets as of March 31, 2011, June 30, 2011 and September 30, 2011 was not material. Total current assets increased by $438,000 and total current liabilities increased by $4.4 million as of March 31, 2011 and June 30, 2011. The consolidated balance sheet has been presented as of September 30, 2011. There was no impact to the cash flows from operating, investing and financing activities for all interim periods; accordingly, consolidated statements of cash flows have not been presented for the three and six months ended March 31, 2011 and June 30, 2011, respectively. The consolidated statement of cash flows has been presented for the nine-months ended September 30, 2011.

The table below reflects the breakdown by quarter of the restatement adjustments to net income (loss) and total adjustments for the nine months ended September 30, 2011. The consolidated financial statements were restated as follows (in thousands):

	Net income (loss), as previously reported	Stock compen-sation	Cash severance	Acquisition-related costs	Benefit from income taxes	Total adjustments, net of tax	Net income (loss), as restated
Three months ended March 31, 2011	$6,004	$ (4,013)	$(384)	$ -	$438	$ (3,959)	$2,045
Three months ended June 30, 2011	(35,181)	-	-	-	-	-	(35,181)
Three months ended September 30, 2011	7,209	-	-	(723)	-	(723)	6,486
Nine months ended September 30, 2011	$(21,968)	$ (4,013)	$(384)	$ (723)	$438	$ (4,682)	$(26,650)

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The following table presents the cumulative impact of financial statement adjustments on the previously reported consolidated statement of operations for the three months ended March 31, 2011 (in thousands, except for per share amounts):

	Three Months Ended March 31, 2011		
	As Previously Reported	Adjustments	As Restated
Revenue	$ 98,669	$ -	$ 98,669
Cost of revenue	38,242	-	38,242
Gross profit	60,427	-	60,427
Operating expenses:			
Research and development	32,825	-	32,825
Selling, general and administrative	20,414	4,397 (A)(B)	24,811
Acquisition-related costs	487	-	487
Total operating expenses	53,726	4,397	58,123
Income from operations	6,701	(4,397)	2,304
Other income (expense):			
Interest and other income (expense), net	311	-	311
Income before income taxes	7,012	(4,397)	2,615
Benefit from income taxes	1,008	(438) (C)	570
Net income	$ 6,004	$ (3,959)	$ 2,045
Net income per share - Basic	$ 0.09		$ 0.03
Net income per share - Diluted	$ 0.08		$ 0.03
Shares used in calculation - Basic	68,002	76 (D)	68,078
Shares used in calculation - Diluted	72,696	96 (D)	72,792

(A) Adjustments for cash severance associated with the officer’s separation package
(B) Adjustments for stock compensation associated with the officer’s separation package
(C) Adjustments to record the tax effect of (A) and (B)
(D) Adjustments for the effects of vesting acceleration in basic and diluted share count

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The following table presents the cumulative impact of financial statement adjustments on the previously reported consolidated statement of operations for the three and six months ended June 30, 2011 (in thousands, except for per share amounts):

	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011			
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments		As Restated
Revenue	$ 103,689	$ -	$ 103,689	$ 202,358	$ -		$ 202,358
Cost of revenue	43,221	-	43,221	81,463	-		81,463
Gross profit	60,468	-	60,468	120,895	-		120,895
Operating expenses:							
Research and development	40,789	-	40,789	73,614	-		73,614
Selling, general and administrative	21,311	-	21,311	41,725	4,397	(A)(B)	46,122
Change in contingent earn-out liability	36,711	-	36,711	36,711	-		36,711
Acquisition-related costs	1,446	-	1,446	1,933	-		1,933
Total operating expenses	100,257	-	100,257	153,983	4,397		158,380
Loss from operations	(39,789)	-	(39,789)	(33,088)	(4,397)		(37,485)
Other income (expense):							
Gain recognized on investment in Optichron, Inc.	4,259	-	4,259	4,259	-		4,259
Impairment charge on other investment	(1,276)	-	(1,276)	(1,276)	-		(1,276)
Interest and other income (expense), net	93	-	93	404	-		404
Loss before income taxes	(36,713)	-	(36,713)	(29,701)	(4,397)		(34,098)
Benefit from income taxes	(1,532)	-	(1,532)	(524)	(438)	(C)	(962)
Net loss	$ (35,181)	$ -	$ (35,181)	$ (29,177)	$ (3,959)		$ (33,136)
Net loss per share -Basic	$ (0.51)		$ (0.51)	$ (0.43)			$ (0.48)
Net loss per share -Diluted	$ (0.51)		$ (0.51)	$ (0.43)			$ (0.48)
Shares used in calculation -Basic	68,560	126 (D)	68,686	68,489	101	(D)	68,590
Shares used in calculation -Diluted	68,560	126 (D)	68,686	68,489	101	(D)	68,590

(A) Adjustments for cash severance associated with the officer's separation package
(B) Adjustments for stock compensation associated with the officer's separation package
(C) Adjustments to record the tax effect of (A) and (B)
(D) Adjustments for the effects of vesting acceleration in basic and diluted share count

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The following table presents the cumulative impact of financial statement adjustments on the previously reported consolidated statement of operations for the three and nine months ended September 30, 2011 (in thousands, except for per share amounts):

	Three Months Ended September 30, 2011				Nine Months Ended September 30, 2011			
	As Previously Reported	Adjustments		As Restated	As Previously Reported	Adjustments		As Restated
Revenue	$ 106,808	$ -		$ 106,808	$ 309,166	$ -		$ 309,166
Cost of revenue	39,690	-		39,690	121,153	-		121,153
Gross profit	67,118	-		67,118	188,013	-		188,013
Operating expenses:								
Research and development	39,848	-		39,848	113,462	-		113,462
Selling, general and administrative	22,000	-		22,000	63,725	4,397	(A)(B)	68,122
Change in contingent earn-out liability	(5,295)	-		(5,295)	31,416	-		31,416
Acquisition-related costs	5,591	723	(E)	6,314	7,524	723	(E)	8,247
Total operating expenses	62,144	723		62,867	216,127	5,120		221,247
Income (loss) from operations	4,974	(723)		4,251	(28,114)	(5,120)		(33,234)
Other income (expense):								
Gain recognized on investment in Optichron, Inc.	-	-		-	4,259	-		4,259
Impairment charge on other investment	-	-		-	(1,276)	-		(1,276)
Interest and other income (expense), net	94	-		94	498	-		498
Income (loss) before income taxes	5,068	(723)		4,345	(24,633)	(5,120)		(29,753)
Benefit from income taxes	(2,141)	-		(2,141)	(2,665)	(438)	(C)	(3,103)
Net income (loss)	$ 7,209	$ (723)		$ 6,486	$ (21,968)	$ (4,682)		$ (26,650)
Net income (loss) per share -Basic	$ 0.10			$ 0.09	$ (0.32)			$ (0.39)
Net income (loss) per share -Diluted	$ 0.10			$ 0.09	$ (0.32)			$ (0.39)
Shares used in calculation	69,266	126	(D)	69,392	68,585	109	(D)	68,694

-Basic								
Shares used in calculation -Diluted	73,498	83	(D)	73,581	68,585	109	(D)	68,694

(A) Adjustments for cash severance associated with the officer's separation package
(B) Adjustments for stock compensation associated with the officer's separation package
(C) Adjustments to record the tax effect of (A) and (B)
(D) Adjustments for the effects of vesting acceleration in basic and diluted share count
(E) Adjustments for under accrual of acquisition-related costs

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The following table presents the cumulative impact of financial statement adjustments on the previously reported consolidated balance sheet as of September 30, 2011 (in thousands):

	September 30, 2011			
	As Previously Reported	Adjustments		As Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 125,751			$ 125,751
Short-term investments	116,621			116,621
Accounts receivables, net	38,916			38,916
Inventories	38,326			38,326
Deferred income taxes	7,493			7,493
Prepaid expenses and other current assets	12,536	438	(C)	12,974
Total current assets	339,643			340,081
Property and equipment, net	31,235			31,235
Goodwill	167,152			167,152
Intangible assets, net	204,029			204,029
Other assets	78,521			78,521
Total assets	$ 820,580			$ 821,018
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$ 16,470			$ 16,470
Accrued liabilities	29,275	1,107	(A)(E)	30,382
Contingent earn-out liability, current	71,024			71,024
Deferred margin	2,932			2,932
Software licenses and other obligations, current	4,722			4,722
Total current liabilities	124,423			125,530
Contingent earn-out liability, long-term	3,867			3,867
Software licenses and other obligations, long-term	3,394			3,394
Other liabilities	41,520			41,520
Total liabilities	173,204			174,311
Stockholders' equity				
Common stock	696			696
Additional paid-in capital	860,623	4,013	(B)	864,636
Accumulated other comprehensive loss	(2,461)			(2,461)
Accumulated deficit	(211,482)	(4,682)	(A)(B)(C)(E)	(216,164)
Total stockholders' equity	647,376			646,707
Total liabilities and stockholders' equity	$ 820,580			$ 821,018

(A) Adjustments for cash severance associated with the officer’s separation package
(B) Adjustments for stock compensation associated with the officer’s separation package
(C) Adjustments to record the tax effect of (A) and (B)
(E) Adjustments for under accrual of acquisition-related costs

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The following table presents the cumulative impact of financial statement adjustments on the previously reported consolidated statement of cash flows for the nine months ended September 30, 2011 (in thousands):

	Nine Months Ended September 30, 2011			
	As Previously Reported	Adjustments		As Restated
Cash flows from operating activities:				
Net loss	$ (21,968)	$ (4,682)	(A)(B)(C)(E)	$ (26,650)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	51,246			51,246
Loss on disposal of property and equipment	52			52
Amortization of premium related to debt securities, net	1,060			1,060
Stock-based compensation	39,526	4,013	(B)	43,539
Recovery of doubtful accounts	(55)			(55)
Provision for inventory reserves	5,132			5,132
Gain recognized on investment in Optichron, Inc.	(4,259)			(4,259)
Impairment charge on other investment	1,276			1,276
Deferred income taxes, net	114			114
Excess tax benefit from stock-based awards	(248)			(248)
Changes in current assets and liabilities:				
Accounts receivables	(15,232)			(15,232)
Inventories	(4,260)			(4,260)
Prepaid expenses and other assets	232	(438)	(C)	(206)
Accounts payable and accrued liabilities	(4,534)	1,107	(A)(E)	(3,427)
Cash settled contingent earn-out liability	31,416			31,416
Deferred margin	(2,254)			(2,254)
Other long-term liabilities	2,507			2,507
Net cash provided by operating activities	79,751			79,751
Cash flows from investing activities:				
Acquisition of Optichron, Inc, net of cash acquired of $2.5 million	(74,679)			(74,679)
Purchase of property and equipment	(8,720)			(8,720)
Purchase of short-term investments	(94,259)			(94,259)
Sales and maturities of short-term investments	132,230			132,230
	(17,500)			(17,500)

Purchase of long term investments and other				
Net cash used in investing activities		(62,928)		(62,928)
Cash flows from financing activities:				
Payments of software license and other obligations		(4,931)		(4,931)
Proceeds from issuance of common stock		17,939		17,939
Tax payments related to vested awards		(4,851)		(4,851)
Excess tax benefit from stock-based awards		248		248
Net cash provided by financing activities		8,405		8,405
Net increase (decrease) in cash and cash equivalents		25,228		25,228
Cash and cash equivalents at beginning of year		100,523		100,523
Cash and cash equivalents at end of year	$	125,751	$	125,751

(A) Adjustments for cash severance associated with the officer's separation package
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(C) Adjustments to record the tax effect of (A) and (B)
(E) Adjustments for under accrual of acquisition-related costs

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of December 31, 2011. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2011 because of the material weakness in our internal control over financial reporting described below. The Company's disclosure controls and procedures are designed to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Notwithstanding the material weaknesses described below, our current management has concluded that the consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K were fairly stated in all material respects in accordance with generally accepted accounting principles in the United States for each of the periods presented herein.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Our management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

We have determined that we did not maintain effective controls over non-standard equity transactions. Specifically our control over the evaluation of the accounting for a non-routine triggering event with respect to a severance arrangement applicable to an outstanding award of stock-based compensation did not operate effectively, which resulted in a material adjustment to our first quarter ended March 31, 2011. Additionally, this control deficiency could result in misstatements of stock compensation and severance expenses and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

Because of this material weakness, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2011, based on criteria in Internal Control-Integrated Framework issued by the COSO.

The effectiveness of the company's internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears as part of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

Since December 31, 2011, we have begun the implementation of remedial actions described below. However, there were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Planned Remedial Actions of Material Weakness

Our planned remedial action is to require an accounting analysis to be prepared and documented on a timely basis for non-standard equity transactions related to severance arrangements.

ITEM 9B. OTHER INFORMATION.

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to our executive directors, executive officers and corporate governance required to be provided in response to this item will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

We have adopted a Code of Business Conduct and Ethics for Employees, Executive Officers and Directors that applies to all of our employees and directors. We have posted this Code of Business Conduct and Ethics on the Company's website at www.netlogicmicro.com.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation required to be provided in response to this item will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to security ownership and securities authorized for issuance under equity compensation plans will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required to be provided in response to this item will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required to be provided in response to this item will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2011.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as part of this report on Form 10-K:

(1) Financial Statements. Reference is made to the Index to the registrant's the Financial Statements under Item 8 in Part II of this Form 10-K.

(2) Financial Statement Schedules. The following consolidated financial statement schedule of the registrant is filed as part of this report on Form 10-K and should be read in conjunction with the Financial Statements of NetLogic Microsystems, Inc.:

Schedule II—Valuation and Qualifying Accounts for the years ended December 31, 2011, 2010 and 2009.

Schedules not listed above are omitted because they are not required, they are not applicable or the information is already included in the consolidated financial statements or notes thereto.

(3) Exhibits. The exhibits listed on the accompanying index to exhibits in Item 15(b) below are filed as part of, or hereby incorporated by reference into, this report on Form 10-K.

(b) Exhibits.

The exhibits listed below are required by Item 601 of Regulation S-K.

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Exhibit	Description
2.1	Agreement and Plan of Merger dated March 20, 2011 by and among the registrant, Optichron and David Liddle, as the representative of Optichron's former stockholders (1)
2.2	Form of Common Stock Purchase Agreement dated March 20, 2011 by and between the registrant and certain former stockholders of Optichron (1)
2.3	Agreement and Plan of Merger dated September 11, 2011 by and among the registrant, Broadcom and I&N Acquisition Corp. (2)
3.1	Restated Certificate of Incorporation of the registrant filed on August 2, 2004 (3)
3.4	Bylaws of the registrant (4)
4.1	Specimen common stock certificate (5)
4.2	Rights Agreement by and between the registrant and Wells Fargo Bank, National Association, dated July 7, 2004 (6)
4.2.1	First Amendment to Rights Agreement by and between the registrant and Wells Fargo Bank, National Association, dated September 11, 2011 (7)
4.3*	Form of Stock Option Agreement (8)
4.4*	Form of Restricted Stock Unit Agreement (9)
10.1*	2000 Stock Plan and forms of related agreements (10)
10.2*	Amended and Restated 2004 Equity Incentive Plan (11)
10.2.1*	Form of Stock Option Agreement under Amended and Restated 2004 Equity Incentive Plan (12)
10.2.2*	Form of Restricted Stock Agreement under Amended and Restated 2004 Equity Incentive Plan (13)
10.3*	2004 Employee Stock Purchase Plan and forms of related agreements (14)

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Exhibit	Description
10.4	Form of Indemnity Agreement (10)
10.5	Not in use.
10.6	Not in use.
10.7	Not in use.
10.8	Not in use.
10.9*	Form of Change-In-Control Agreement between the registrant and each of certain officers thereof (15)
10.10*	Incentive Bonus Plan effective May 5, 2005 (16)
10.11	Form of Master Purchase Agreement by and between the registrant and Cisco Systems, Inc. (17)†
10.12	Not in use.
10.13	Not in use.
10.14	Second Amendment to Lease between Mission West Charleston, LLC and NetLogic Microsystems, Inc. (18)
10.15	Standard Form Lease by and between the registrant and Mission West Properties, L.P. dated May 3, 2004 (19)
10.16*	Employment offer letter, dated April 12, 2000, between the registrant and Ronald Jankov (19)
10.17*	Employment offer letter, dated April 1, 1999, between the registrant and Roland Cortes (19)
10.18*	Employment offer letter, dated March 15, 2002, between the registrant and Ibrahim Korgav, as amended (19)
10.19*	Employment offer letter, dated February 9, 1996, between the registrant and Varadarajan Srinivasan (19)
10.20*	Employment offer letter, dated June 7, 1999, between the registrant and Marcia Zander (19)
10.21*	Form of Restricted Stock Unit Award Agreement (20)
10.22*	

	Employment offer letter, dated June 30, 2009, between the registrant and Behrooz Abdi (21)
10.23*	Employment offer letter, dated July 11, 2007, between registrant and Michael Tate (22)
10.24	Not in use.
10.25	Purchase Agreement between Registrant and Wintec Industries, Inc.† (22)
10.26	Form of Restricted Stock Agreement for New Employee Inducement Grants (23)
10.27*	NetLogic Microsystems, Inc. 2008 New Employee Inducement Incentive Plan dated January 16, 2008 (24)
10.28*	Not in use.
10.29*	Form of Notice of Restricted Stock Unit Award and Agreement under the registrant's 2008 New Employee Inducement Incentive Plan (25)
10.30*	Form of Notice of Restricted Stock Unit Award and Agreement under the Amended and Restated 2004 Equity Incentive Plan (25)
10.31	Not in use.
10.32*	Form of Change of Control Agreement dated April 25, 2011 between the registrant and each of Ronald Jankov, Michael Tate and Roland Cortes (26)
10.33	Not in use.
10.34	Not in use.
10.35	Not in use.
10.36	Not in use.
10.37	Not in use.

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Exhibit	Description
10.38	Office Lease by and between the registrant and Carr NP Properties, L.L.C. and 3975 Freedom Circle Drive L.L.C. dated March 19, 2010 (27)
21.1**	List of Subsidiaries of Registrant
23.1**	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
31.1**	Rule 13a-14 certification
31.2**	Rule 13a-14 certification
32.1**	Section 1350 certification
32.2**	Section 1350 certification
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB***	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document

(1) Incorporated by reference to the same-numbered exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2011.

(2) Incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 12, 2011.

(3) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, filed with the Securities and Exchange Commission on August 20, 2004.

(4) Incorporated by reference to the same-numbered exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 21, 2008.

(5) Incorporated by reference to the same-numbered exhibit to Amendment No. 3 to Form S-1 (Registration No. 333-114549) filed by the registrant with the Securities and Exchange Commission on June 21, 2004.

(6)

Incorporated by reference to Exhibit 99 (i) to Form 8-A (Registration No. 000-50838) filed by the registrant with the Securities and Exchange Commission on July 8, 2004.

(7) Incorporated by reference to Exhibit 1 to the Amendment No. 1 on Form 8-A/A filed by the registrant with the Securities and Exchange Commission on September 12, 2011.

(8) Incorporated by reference to Exhibit 4.3 to Form S-8 (Registration No. 333-162765) filed by the registrant with the Securities and Exchange Commission on October 30, 2009.

(9) Incorporated by reference to Exhibit 4.4 to Form S-8 (Registration No. 333-162765) filed by the registrant with the Securities and Exchange Commission on October 30, 2009.

(10) Incorporated by reference to the same-numbered exhibit to Form S-1 (Registration No. 333-114549) filed by the registrant with the Securities and Exchange Commission on April 16, 2004.

(11) Incorporated by reference to Exhibit 99.1 to the registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 27, 2010.

(12) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, filed with the Securities and Exchange Commission on November 12, 2004.

(13) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on February 28, 2006.

(14) Incorporated by reference to the same-numbered exhibit to Form S-8 (Registration No. 333-117619) filed by the registrant with the Securities and Exchange Commission on July 23, 2004.

(15) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission on March 11, 2005.

(16) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, filed with the Securities and Exchange Commission on May 9, 2005.

(17) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, filed with the Securities and Exchange Commission on November 8, 2005.

(18) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2006, filed with the Securities and Exchange Commission on May 9, 2006.

(19) Incorporated by reference to the same-numbered exhibit to Amendment No. 1 to Form S-1 (Registration No. 333-114549) filed by the registrant with the Securities and Exchange Commission on May 19, 2004.

(20) Incorporated by reference to Exhibit 10.25 to Form S-8 (Registration No. 333-147064) filed by the registrant with the Securities and Exchange Commission on October 31, 2007.

(21) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on February 26, 2010.

(22) Incorporated by reference to same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 filed with the Securities and Exchange Commission on August 7, 2007.

(23) Incorporated by reference to Exhibit 10.2.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 filed with the Securities and Exchange Commission on August 7, 2007.

(24) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on March 14, 2008.

(25) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 4, 2009.

(26) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, filed with the Securities and Exchange Commission on August 1, 2011.

(27) Incorporated by reference to the same-numbered exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 23, 2010.

* Indicates management contract or compensatory plan or arrangement.

** Filed herewith.

*** Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

† Certain portions of this exhibit are subject to confidential treatment.

(c) Financial statements and schedules.

Reference is made to Item 15(a) above.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 15, 2012	NETLOGIC MICROSYSTEMS, INC.	
	By	/s/ RONALD JANKOV Ronald Jankov President and Chief Executive Officer

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ronald Jankov and Michael Tate as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ RONALD JANKOV Ronald Jankov	Chief Executive Officer and Director (Principal Executive Officer)	February 15, 2012
/s/ MICHAEL TATE Michael Tate	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 15, 2012
/s/ LEONARD PERHAM Leonard Perham	Director	February 15, 2012
/s/ NORMAN GODINHO Norman Godinho	Director	February 15, 2012
/s/ ALAN KROCK Alan Krock	Director	February 15, 2012
/s/ DOUGLASS BROYLES Douglas Broyles	Director	February 15, 2012
/s/ STEVE DOMENIK Steve Domenik	Director	February 15, 2012
/s/ MARVIN BURKETT Marvin Burkett	Director	February 15, 2012

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 and 2009
(in thousands)

	Balance at Beginning of Period	Additions	Write-off Adjustments	Balance at End of Period
Allowance for Doubtful Accounts				
Year ended December 31, 2011	$357	$(89)	$ (90)	$178
Year ended December 31, 2010	$259	$131	$ (33)	$357
Year ended December 31, 2009	$68	$4	$ 187	$259
Income Tax Valuation Allowance:				
Year ended December 31, 2011	$8,483	$48,300	$ -	$56,783
Year ended December 31, 2010	$7,043	$1,440	$ -	$8,483
Year ended December 31, 2009	$-	$7,043	$ -	$7,043

Exhibit	Description
2.1	Agreement and Plan of Merger dated March 20, 2011 by and among the registrant, Optichron and David Liddle, as the representative of Optichron's former stockholders (1)
2.2	Form of Common Stock Purchase Agreement dated March 20, 2011 by and between the registrant and certain former stockholders of Optichron (1)
2.3	Agreement and Plan of Merger dated September 11, 2011 by and among the registrant, Broadcom and I&N Acquisition Corp. (2)
3.1	Restated Certificate of Incorporation of the registrant filed on August 2, 2004 (3)
3.4	Bylaws of the registrant (4)
4.1	Specimen common stock certificate (5)
4.2	Rights Agreement by and between the registrant and Wells Fargo Bank, National Association, dated July 7, 2004 (6)
4.2.1	First Amendment to Rights Agreement by and between the registrant and Wells Fargo Bank, National Association, dated September 11, 2011 (7)
4.3*	Form of Stock Option Agreement (8)
4.4*	Form of Restricted Stock Unit Agreement (9)
10.1*	2000 Stock Plan and forms of related agreements (10)
10.2*	Amended and Restated 2004 Equity Incentive Plan (11)
10.2.1*	Form of Stock Option Agreement under Amended and Restated 2004 Equity Incentive Plan (12)
10.2.2*	Form of Restricted Stock Agreement under Amended and Restated 2004 Equity Incentive Plan (13)
10.3*	2004 Employee Stock Purchase Plan and forms of related agreements (14)

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Exhibit	Description
10.4	Form of Indemnity Agreement (10)
10.5	Not in use.
10.6	Not in use.
10.7	Not in use.
10.8	Not in use.
10.9*	Form of Change-In-Control Agreement between the registrant and each of certain officers thereof (15)
10.10*	Incentive Bonus Plan effective May 5, 2005 (16)
10.11	Form of Master Purchase Agreement by and between the registrant and Cisco Systems, Inc. (17)†
10.12	Not in use.
10.13	Not in use.
10.14	Second Amendment to Lease between Mission West Charleston, LLC and NetLogic Microsystems, Inc. (18)
10.15	Standard Form Lease by and between the registrant and Mission West Properties, L.P. dated May 3, 2004 (19)
10.16*	Employment offer letter, dated April 12, 2000, between the registrant and Ronald Jankov (19)
10.17*	Employment offer letter, dated April 1, 1999, between the registrant and Roland Cortes (19)
10.18*	Employment offer letter, dated March 15, 2002, between the registrant and Ibrahim Korgav, as amended (19)
10.19*	Employment offer letter, dated February 9, 1996, between the registrant and Varadarajan Srinivasan (19)
10.20*	Employment offer letter, dated June 7, 1999, between the registrant and Marcia Zander (19)
10.21*	Form of Restricted Stock Unit Award Agreement (20)
10.22*	

	Employment offer letter, dated June 30, 2009, between the registrant and Behrooz Abdi (21)
10.23*	Employment offer letter, dated July 11, 2007, between registrant and Michael Tate (22)
10.24	Not in use.
10.25	Purchase Agreement between Registrant and Wintec Industries, Inc.† (22)
10.26	Form of Restricted Stock Agreement for New Employee Inducement Grants (23)
10.27*	NetLogic Microsystems, Inc. 2008 New Employee Inducement Incentive Plan dated January 16, 2008 (24)
10.28*	Not in use.
10.29*	Form of Notice of Restricted Stock Unit Award and Agreement under the registrant's 2008 New Employee Inducement Incentive Plan (25)
10.30*	Form of Notice of Restricted Stock Unit Award and Agreement under the Amended and Restated 2004 Equity Incentive Plan (25)
10.31	Not in use.
10.32*	Form of Change of Control Agreement dated April 25, 2011 between the registrant and each of Ronald Jankov, Michael Tate and Roland Cortes (26)
10.33	Not in use.
10.34	Not in use.
10.35	Not in use.
10.36	Not in use.
10.37	Not in use.

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Exhibit	Description
10.38	Office Lease by and between the registrant and Carr NP Properties, L.L.C. and 3975 Freedom Circle Drive L.L.C. dated March 19, 2010 (27)
21.1**	List of Subsidiaries of Registrant
23.1**	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
31.1**	Rule 13a-14 certification
31.2**	Rule 13a-14 certification
32.1**	Section 1350 certification
32.2**	Section 1350 certification
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB***	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document

(1) Incorporated by reference to the same-numbered exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2011.

(2) Incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 12, 2011.

(3) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, filed with the Securities and Exchange Commission on August 20, 2004.

(4) Incorporated by reference to the same-numbered exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 21, 2008.

(5) Incorporated by reference to the same-numbered exhibit to Amendment No. 3 to Form S-1 (Registration No. 333-114549) filed by the registrant with the Securities and Exchange Commission on June 21, 2004.

(6) Incorporated by reference to Exhibit 99 (i) to Form 8-A (Registration No. 000-50838) filed by the registrant with the Securities and Exchange Commission on July 8, 2004.

(7) Incorporated by reference to Exhibit 1 to the Amendment No. 1 on Form 8-A/A filed by the registrant with the Securities and Exchange Commission on September 12, 2011.

(8) Incorporated by reference to Exhibit 4.3 to Form S-8 (Registration No. 333-162765) filed by the registrant with the Securities and Exchange Commission on October 30, 2009.

(9) Incorporated by reference to Exhibit 4.4 to Form S-8 (Registration No. 333-162765) filed by the registrant with the Securities and Exchange Commission on October 30, 2009.

(10) Incorporated by reference to the same-numbered exhibit to Form S-1 (Registration No. 333-114549) filed by the registrant with the Securities and Exchange Commission on April 16, 2004.

(11) Incorporated by reference to Exhibit 99.1 to the registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 27, 2010.

(12) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, filed with the Securities and Exchange Commission on November 12, 2004.

(13) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on February 28, 2006.

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(14) Incorporated by reference to the same-numbered exhibit to Form S-8 (Registration No. 333-117619) filed by the registrant with the Securities and Exchange Commission on July 23, 2004.

(15) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission on March 11, 2005.

(16) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, filed with the Securities and Exchange Commission on May 9, 2005.

(17) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005, filed with the Securities and Exchange Commission on November 8, 2005.

(18) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2006, filed with the Securities and Exchange Commission on May 9, 2006.

(19) Incorporated by reference to the same-numbered exhibit to Amendment No. 1 to Form S-1 (Registration No. 333-114549) filed by the registrant with the Securities and Exchange Commission on May 19, 2004.

(20) Incorporated by reference to Exhibit 10.25 to Form S-8 (Registration No. 333-147064) filed by the registrant with the Securities and Exchange Commission on October 31, 2007.

(21) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on February 26, 2010.

(22) Incorporated by reference to same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 filed with the Securities and Exchange Commission on August 7, 2007.

(23) Incorporated by reference to Exhibit 10.2.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 filed with the Securities and Exchange Commission on August 7, 2007.

(24) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on March 14, 2008.

(25) Incorporated by reference to the same-numbered exhibit to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 4, 2009.

(26) Incorporated by reference to the same-numbered exhibit to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, filed with the Securities and Exchange Commission on August 1, 2011.

(27) Incorporated by reference to the same-numbered exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 23, 2010.

* Indicates management contract or compensatory plan or arrangement.

** Filed herewith.

*** Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

† Certain portions of this exhibit are subject to confidential treatment.

(c) Financial statements and schedules.

Reference is made to Item 15(a) above.

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