UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2011

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from: to

Commission File Number 0-19084

PMC-Sierra, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-2925073**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1380 Bordeaux Drive
Sunnyvale, CA 94089
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (408) 239-8000

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

Title of each class	Name of exchange on which registered
Common Stock, $0.001 Par Value	NASDAQ Global Select Market
Preferred Stock Purchase Rights	

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of the voting stock held by nonaffiliates of the registrant, based upon the closing sale price of the Common Stock on June 26, 2011 as reported by the NASDAQ Global Select Market, was approximately $1.3 billion. Shares of Common Stock held by each executive officer and director and by each person known to the registrant who owns 5% or more of the outstanding voting stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 24, 2012, the registrant had 231,716,591 shares of Common Stock, $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant's 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K Report. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2011

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Unless the context requires otherwise, "PMC-Sierra", "PMC", "the Company", "us", "our" or "we", mean PMC-Sierra, Inc. together with our subsidiary companies.

Forward-Looking Statements

This Annual Report on Form 10-K (this "Annual Report") and the portions of our Proxy Statement incorporated by reference into this Annual Report contain forward-looking statements. We often use words such as "anticipates", "believes", "plans", "expects", "future", "intends", "may", "should", "estimates", "predicts", "potential", "continue", "becoming", "transitioning" and similar expressions to identify such forward-looking statements.

These forward-looking statements apply only as of the date of this Annual Report. We undertake no obligation to publicly update or revise any forward-looking statements made herein or elsewhere, whether as a result of new information, future events or otherwise. Our actual results could differ materially and adversely from those anticipated in forward-looking statements, including without limitation the risks described under "*Item IA. Risk Factors*" and elsewhere in this Annual Report and our other filings with the SEC. Investors are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Such forward-looking statements include statements as to, among other topics:

- business strategy;
- business outlook;
- sales, marketing and distribution;
- wafer fabrication capacity;
- competition and pricing;
- critical accounting policies and estimates;
- customer product inventory levels, needs and order levels;
- demand for communications network infrastructure equipment;
- net revenues;
- gross profit;
- research and development expenses;
- selling, general and administrative expenses;
- other income (expense), including interest income (expense);
- foreign exchange rates;
- taxation rates and tax provision;
- sources of liquidity and liquidity sufficiency;
- capital resources;
- capital expenditures;
- restructuring activities, expenses and associated annualized savings;
- cash commitments;
- purchase commitments;
- use of cash;
- expectation regarding our amortization of purchased intangible assets;
- our expectations regarding our acquisitions of the Channel Storage business from Adaptec, Inc. ("Adaptec"), and of Wintegra, Inc. ("Wintegra") and
- expectations regarding distribution from certain investments.

This Annual Report should be read in conjunction with our periodic filings made with the SEC subsequent to the date of the original filing, including any amendments to those filings, as well as any current reports filed on Form 8-K subsequent to the date of the original filing.

PART I

ITEM 1. BUSINESS.

OVERVIEW

PMC-Sierra, Inc. is a semiconductor innovator transforming networks that connect, move and store digital content. The Company designs, develops, markets and supports semiconductor solutions by integrating its mixed-signal, software and systems expertise through a network of offices in North America, Europe and Asia.

We have approximately 640 different semiconductor devices that are sold to leading equipment and design manufacturers, who in turn supply their equipment principally to service providers, carriers and enterprises globally. We provide semiconductor solutions for our customers by leveraging our intellectual property, design expertise and systems knowledge across a broad range of applications and industry protocols. PMC's portfolio of semiconductor devices is used in various applications of communications network infrastructure equipment. Building on a track record of technology leadership, we are driving innovation across storage, optical and mobile networks. Our highly integrated solutions increase performance and enable next generation services to accelerate the network transformation.

PMC was incorporated in the state of California in 1983 and reincorporated in the state of Delaware in 1997. Our Common Stock trades on the NASDAQ Global Select Market under the symbol "PMCS". Our fiscal year normally ends on the last Sunday of the calendar year. Fiscal year 2011 consisted of 53 weeks. Fiscal years 2010 and 2009 consisted of 52 weeks.

INDUSTRY OVERVIEW

The transformation of the network is taking place due to the rapid growth in video traffic and more capable mobile devices, which continues to drive increasing demand for bandwidth and efficient networks. At the same time, communication service providers are seeking ways to increase their revenues by bundling and delivering a range of services to their customers in a cost-effective manner. Applications such as social media, Video-on-Demand, Internet Protocol Television, videoconferencing, and data-intensive mobile smartphones and tablets are causing traffic levels to increase significantly. A 2011 study issued by Cisco Systems Inc., forecasts that worldwide mobile data traffic will increase 26-fold over the next four years, reaching an annual run rate of 75 exabytes by 2015. This demand is resulting in carriers and enterprises having to upgrade and improve their network infrastructure and storage management capabilities. Enterprises, governments, corporations, small offices and home offices are expanding their networks to better capture, store and access large quantities of data and video, efficiently and securely.

We operate in one reportable segment—semiconductor solutions for communications network infrastructure. Our semiconductor devices enable networking equipment primarily in three market segments: Storage, Mobile and Optical networks. The Storage market segment is made up of enterprise storage equipment manufacturers and covers two broad areas: server storage, and stand-alone external storage systems. The Mobile market segment is mainly infrastructure equipment suppliers, including base station and backhaul equipment, supporting the wireless transmission of content from and to mobile hand devices. The Optical market segment refers to infrastructure suppliers of transport and access networks that use optical transport protocol and/or physical optical medium.

Our Business Strategy

Our mission is to be the premier internet infrastructure semiconductor solution provider. The semiconductor solutions we develop are based on our in-depth knowledge of network applications, system requirements and networking protocols, as well as high-speed mixed-signal and system-on-chip design expertise. To realize our mission while expanding our business profitably, our business strategy can be summarized as follows:

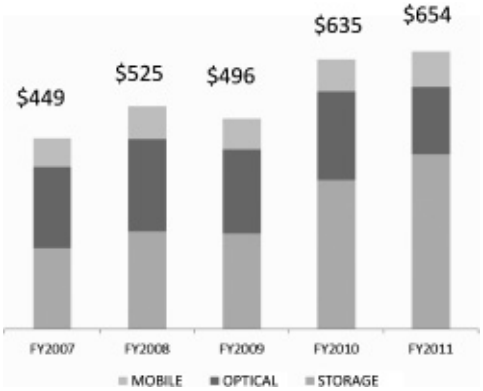
1. Leverage our mixed signal and system on chip expertise to be the leading supplier of silicon solutions for Storage, Mobile and Optical networks;
2. Deliver best in class performance and integration to lead the server and storage system market segments;
3. Build on our position as the leading telecom silicon provider to enable the most integrated Optical Transport Network ("OTN") and Passive Optical Network ("PON") solutions in the metro and access networks; and
4. Enable a seamless transition to packet based backhaul with our multi-service network processor platform.

Our Products and Market Segments That We Serve

Our portfolio of semiconductor devices are used in various applications of communications network infrastructure equipment and enable the transporting and storing of large quantities of digital data, in a secure manner.

Our semiconductor devices enable networking equipment primarily in three market segments: Storage, Mobile and Optical networks.

Annual net revenues (in millions) by the three market segments we serve are presented below:



Storage

Our Storage products are supplied directly to Original Equipment Manufacturers ("OEMs") and channel customers. Our products and solutions for the Storage market segment enable high-speed communications between the servers, switches and storage devices that comprise these systems thus allowing large quantities of data to be stored, managed and moved securely. As storage demand continues to grow, managing the data becomes more critical for the operation of the entire company or service provider. Our focus in this area is in developing communication devices and controllers for high-performance storage systems in the Storage Area Network and Network Attached Storage markets, including 6 Gbps SAS/SATA and 8Gbps Fibre Channel ("FC") controllers and expanders for this market segment. In 2010, PMC acquired Adaptec's channel business, offering server adapter products with high-performance Solid State Drive ("SSD") caching capability that are used to

configure, manage and monitor storage volumes. We also include printer Application-specific Integrated Circuits ("ASICs") in this market segment as they are most aligned with our Enterprise storage customers. Our Printer ASIC products provide integrated solutions for laser printers, that are used by enterprises and small businesses. We sell our standalone microprocessors and integrated system-on-chip devices primarily into the mid- to high-end and multi-function segments of that market. Currently, the Storage market segment represents 60% of our net revenues.

Storage products and/or applications incorporating PMC's semiconductor solutions	PMC Products	Examples of OEMs[1]
Storage Area Networks	RAID-on-Chip (RoC)	Dell
Server Attached Storage	Controllers	EMC
SSD Cache Performance	Expanders	Huawei-Symantec
Enterprise Networking	Loop Switches	HP
Data Center	Physical Layer Products	Hitachi
High Speed Laser and Multi-Function Printers	Multiplexers	IBM
	MIPs Processors	NetApp

(1) Examples in the order listed refer to Dell Inc., EMC Corp., Chengdu Huawei-Symantec Technologies Co., Hewlett-Packard Company, Hitachi, Ltd., International Business Machines Corporation, NetApp, Inc.

Mobile

Our Mobile products include Mobile Backhaul, T1/E1 and SERDES devices sold into Mobile access markets and other small volume products sold in to Wireless infrastructure markets, and include devices that are used in 2G, 3G and 4G wireless base stations and mobile backhaul equipment. We have semiconductor solutions that capture and transmit data over T/E lines and have recently expanded our offerings into IP/Ethernet solutions through the acquisition of Wintegra in 2010. Wintegra's product offerings fit strategically with our overall efforts to accelerate the transition of existing communications equipment from Time-Division Multiplexing to converged, packet-centric solutions. Our highly integrated network processors are optimized for mobile and microwave backhaul, and cell site aggregation networks. PMC initiated new efforts within the remote radio head developing product that takes advantage of our mixed signal expertise and intellectual property for integrated solution that lowers power and offers smaller size. Currently, the Mobile market segment represents 15% of our net revenues.

Mobile products and/or applications incorporating PMC's semiconductor solutions	PMC Products	Examples of OEMs[1]
Mobile Backhaul	WinPath Processors	Alcatel-Lucent
3GPP Wireless Base Stations	Other TBD	Cisco
Remote Radio Heads	UFE Family	Ericsson
	Combiner/Serializers	Huawei
	Baseband	Nokia Siemens
	Transceivers/Framers	Tellabs
	Radio Modules	ZTE

(1) Examples in the order listed refer to Alcatel-Lucent, S.A., Cisco Systems, Inc., Telefonaktiebolaget LM Ericsson, Huawei Technology Co. Ltd., Nokia Corporation, Tellabs Inc., and ZTE Corporation

Optical

Our Optical products include our Wide Area Network communication products focused on Metro and access networks, including Synchronous Optical Networks ("SONET"), Asynchronous Transfer Mode ("ATM") and Fiber to the Home. Our Metro products are used in equipment such as edge routers, multi-service

provisioning platforms, and optical transport platforms where signals are gathered, processed and transmitted to the next destination as quickly and efficiently as possible in the metro area network. Next-generation networking equipment can handle multi-protocol, multi-service traffic and enable voice, video and data to be moved at high speeds over the network. For high-capacity data communication over fiber optic systems, the standard used is SONET in North America and parts of Asia, and is Synchronous Digital Hierarchy ("SDH") in the rest of the world. In addition to using SONET/SDH to increase the bandwidth or capacity of their networks, many service providers are starting to implement packet-based transport equipment using a standard called OTN. OTN equipment is starting to be deployed in the metro and access portions of the network. Currently, the Optical market segment represents 25% of our net revenues.

Optical products and/or applications incorporating PMC's semiconductor solutions	PMC Products	Examples of OEMs[1]
Passive Optical Network		
— EPON & 10G-EPON	HyPHY Family	Alcatel-Lucent
— GPON & XG-PON	Ethernet (Framers, Mappers, MAC)	Ciena
Optical Transport Network	SONET/SDH Framers	Cisco
— P-OTP/P-OTS	Cross Connects	FiberHome
— ROADM/DWDM	T1/E1 Mappers/Framers	Huawei
Carrier/Ethernet/Switch/Routers	DS-3/E3 Mappers/Framers	Juniper
Multi-service switches		Nokia Siemens
— MSPP/MSTP/ADM		Tellabs
		ZTE

(1) Examples in the order listed refer to Alcatel-Lucent, S.A., Ciena Corp., Cisco Systems, Inc., Fiberhome Telecommunication Technologies Co., Ltd., Huawei Technology Co. Ltd., Juniper Networks, Inc., Nokia Corporation, Tellabs Inc., and ZTE Corporation

Sales, Marketing and Distribution

Our sales and marketing strategy is to have our products designed into our customers' equipment by developing superior products for which we provide best-in-class service and technical support. Our marketing team is focused on developing new products and solutions that meet the needs of our customers, including OEMs and original design manufacturers. We are often involved in the early stages of design concerning our customers' plans for new equipment. This helps us determine if our existing products can be used in their new equipment or if new devices need to be developed for the application. To assist us in our planning process, we are in regular contact with our key customers to discuss industry trends, emerging standards and ways in which we can assist in their new product requirements.

Our sales team is focused on selling and supporting our chips and chipsets for equipment providers who are in turn selling their products to service providers, enterprises, or consumers. To better match our available sales resources to market opportunities, we also focus our sales and support efforts on targeted customers.

We sell our products to end customers directly and through distributors and independent manufacturers' representatives. In 2011, approximately 30% of our orders were shipped through distributors, approximately 55% were sent by us directly to contract manufacturers selected by OEMs, and the balance were sent directly to our OEM customers.

In 2011, our largest distributor was Avnet Inc. ("Avnet"), which sold our products worldwide (excluding Japan, Israel, and Taiwan). In 2011, sales shipped through Avnet worldwide represented 12% of our total net revenues. Our second largest distributor is Macnica Inc. Sales shipped through this distributor in 2011 represented 11% of our total net revenues.

In 2011, we had two end customers, HP and EMC, which each accounted for more than 10% of our net revenues.

Our sales outside of the United States, based on customer billing location, accounted for 83%, 85% and 87% of total revenue in 2011, 2010 and 2009, respectively. Our sales to customers in Asia, including Japan and China, were 73%, 77% and 84% of total revenues in 2011, 2010, and 2009, respectively.

See *Item 1A. Risk Factors* for further information on risks related to our foreign operations and dependence.

MANUFACTURING

PMC-Sierra is a fabless company, meaning that we do not own or operate foundries for the production of the silicon wafers from which our products are made. Instead, we work with independent merchant foundries and chip assemblers for the manufacture of our products. We believe our fabless approach to manufacturing provides us with the benefit of superior manufacturing capability, scalability, as well as the flexibility to move wafer manufacture, assembly and test of our products to the vendors that offer the best technology and service at a competitive price.

Our lead-time, or the time required to manufacture our devices, is typically 12 to 18 weeks. Based on this lead-time, our team of production planners initiates purchase orders with our wafer suppliers and with our chip assemblers for the assembly and test of our parts so that, to the best of our ability, our products are available to meet customer demand.

Wafer Fabrication

We manufacture our products at independent foundries using standard Complementary Metal Oxide Semiconductor process techniques. We have in the past purchased silicon wafers from which we manufacture our products from Globalfoundries Inc., Taiwan Semiconductor Manufacturing Corporation ("TSMC"), Texas Instruments Incorporated and United Microelectronics Corporation ("UMC"). These independent foundries produce the wafers for our networking semiconductor products ranging in sizes from 0.18 micron to 40 nanometer. By using independent foundries to fabricate our wafers, we are better able to concentrate our resources on designing, developing and testing of new products. In addition, we avoid the fixed costs associated with owning and operating fabrication and chip assembly facilities and the costs associated with updating these facilities to manage constantly evolving process technologies.

We have existing supply agreements with UMC and TSMC. Generally, terms include but are not limited to, supply terms without minimum unit volume requirements for PMC, indemnification and warranty provisions, quality assurances and termination conditions.

Assembly and Test

Once our wafers are fabricated, they must be probed or inspected, to identify which individual units, referred to as die, were properly manufactured. Most wafers that we purchase are sent directly to an outside assembly house where the die are individually cut and packaged into semiconductor devices. The individual devices are then run through various electrical, mechanical and visual tests before customer delivery. PMC outsources all of its wafer probe and final testing to independent subcontractors.

Quality Assurance

The industries that we serve require high quality, reliable semiconductors for incorporation into their equipment. We pre-qualify each vendor, foundry, assembly and test subcontractor. Wafers supplied by outside foundries must meet our incoming quality and test standards. The testing function is performed predominantly by independent Asian and U.S. companies.

Since the acquisition of the Channel Storage business from Adaptec, PMC has significant business in manufacturing and selling Printed Circuit Board based products. These products are assembled and tested by an independent contract manufacturer before shipping to a distribution center. The design, materials, production test and packaging are specified by PMC and the manufacturing subcontractors are qualified and regularly audited by PMC.

Research and Development

Our research and development efforts are market and customer focused and can involve the development of both hardware and software. These devices and reference designs are targeted for use in enterprise, storage and service provider markets. Increasingly, our OEM customers that serve these end markets are demanding complete solutions with software support and complex feature sets, and we are developing products to fill this need.

From time to time we announce new products to the public once development of the product is substantially completed and there are no longer significant technical risks and costs to be incurred. As we have a portfolio of approximately 640 products, we do not consider any individual new product or group of products released in a year to be material, beyond our continuing development of a portfolio of products that meet our customers' needs.

At the end of fiscal 2011, we had design centers in the United States (California, Pennsylvania, Texas, Oregon and Minnesota), Canada (British Columbia, Alberta, Saskatchewan and Quebec), Israel (Herzliya and Ra'anana), China (Shanghai), Germany (Ismaning and Neckarsulm) and India (Bangalore).

Our research and development spending was $227.1 million in 2011, $187.5 million in 2010, and $149.2 million in 2009.

Backlog

Our sales originate from customer purchase orders. However, our customers frequently revise order quantities and shipment schedules to reflect changes in their requirements. As of December 31, 2011, our backlog of products scheduled for shipment within three months totaled approximately $85 million. Unless our customers cancel or defer to a subsequent year with respect to a portion of this backlog, we expect this entire backlog to be filled in 2012. As of December 26, 2010, our backlog of products scheduled for shipment within three months totaled approximately $117 million.

Our backlog includes our backlog of shipments to direct customers, minor distributors and a portion of shipments by our major distributor to end customers. Our customers may cancel or defer backlog orders. Accordingly, we believe that our backlog at any given time is not a meaningful indicator of future long-term revenues. Backlog may not be comparable between companies.

Competition

We typically face competition at the customer design stage when our customers are determining which semiconductor components to use in their equipment designs.

Most of our customers choose a particular semiconductor component primarily based on whether the component:

- meets the functional requirements;
- interfaces easily with other components in the product;
- meets power usage requirements;
- is priced competitively; and

- is commercially available on a timely basis.

OEMs also consider the quality of the supplier when determining which component to include in a design. Many of our customers will consider the breadth and depth of the supplier's technology, as using one supplier for a broad range of technologies can often simplify and accelerate the design of next generation equipment. OEMs will also consider a supplier's design execution reputation, as many OEMs design their next generation equipment concurrently with the semiconductor component design. OEMs also consider whether a supplier has been pre-qualified, as this ensures that components made by that supplier will meet the OEM's quality standards.

We compete against established peer-group semiconductor companies that focus on the communications and storage semiconductor business. These companies include the following: Altera Corp., Applied Micro Circuits Corp.; Broadcom Corp.; Cortina Systems, Inc.; Emulex Corp.; Exar Corp.; Infineon Technologies AG; Intel Corp.; Texas Instrument Inc; LSI Corp.; Maxim Integrated Products, Inc.; Marvell Technology Group Ltd.; Mindspeed Technologies, Inc.; QLogic Corp.; Vitesse Semiconductor; and Xilinx, Inc. Many of these companies are well financed, have significant communications semiconductor technology assets and established sales channels, and depend on the market in which we participate for the bulk of their revenues.

It is possible for additional competitors to enter the market with new products, some of which may also have greater financial and other resources than we do.

Licenses, Patents and Trademarks

We rely in part on patents to protect our intellectual property and have a total of 649 U.S. and 88 foreign patents for circuit designs and other innovations used in the design and architecture of our products. In addition, we have 76 patent applications pending in the U.S. Patent and Trademark office. Our patents typically expire 20 years from the patent application date, with our existing patents expiring between 2012 and 2031.

We do not consider our business to be materially dependent upon any one patent. We believe that a strong portfolio of patents combined with other factors such as our ability to innovate, technological expertise and the experience of our personnel are important to compete effectively in our industry. Our patent portfolio also provides the flexibility to negotiate or cross license intellectual property with other semiconductor companies to broaden the features in our products.

We also rely on mask work protection, trademarks, copyrights, trade secret laws, employee and third-party nondisclosure agreements, and licensing arrangements to protect our intellectual property.

PMC, PMC-Sierra and our logo are registered trademarks and service marks. Any other trademarks used in this Annual Report are owned by other entities. We own other trademarks and service marks not appearing in this Annual Report.

Employees

As of December 31, 2011, we had 1,564 employees, including 982 in Research and Development, 109 in Production and Quality Assurance, 310 in Sales and Marketing and 163 in Administration. During 2011, we increased our number of employees by 115 employees. Our employees are not represented by a collective bargaining agreement and we have never experienced any related work stoppage.

Additional Information and SEC Reports

Our principal executive offices are located at 1380 Bordeaux Drive, Sunnyvale, CA 94089. Our internet webpage is located at www.pmc-sierra.com; however, the information accessed on or through our webpage is not part of this report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports are available, free of charge, on our webpage after we electronically file or

furnish such material with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100F Street, NE., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS.

Our company is subject to a number of risks – some are normal for the fabless semiconductor industry, some are the same or similar to those disclosed in previous SEC filings, and some may be present in the future. You should carefully consider all of these risks and the other information in this report before investing in PMC. The fact that certain risks are endemic to the industry does not lessen the significance of the risk.

As a result of the following risks, our business, financial condition, operating results and/or liquidity could be materially adversely affected. This could cause the trading price of our securities to decline, and you may lose part or all of your investment.

Our global growth is subject to a number of economic risks.

We conduct business throughout the world, including in Asia, North America, Europe and the Middle East. Instability in the global credit markets, including the recent European economic and financial turmoil related to sovereign debt issues in certain countries, the instability in the geopolitical environment in many parts of the world and other disruptions, such as changes in energy costs, may continue to put pressure on global economic conditions. The world has recently experienced a global macroeconomic downturn, To the extent global economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate further, business, operating results, and financial condition may be materially adversely impacted.

Additionally, given the greater credit restrictions that are being invoked by lenders around the world, our ability to access the capital markets may be severely restricted at a time when we would like, or need, to access such capital markets, which could have an impact on our flexibility to pursue additional expansion opportunities and maintain our desired level of revenue growth in the future.

We are subject to rapid changes in demand for our products due to:

- variations in our turns business;
- short order lead time;
- customer inventory levels;
- production schedules; and
- fluctuations in demand.

As a result, there could be significant variability in the demand for our products, our past operating results may not be indicative of our future operating results.

Fluctuation in demand is dependent on, among other things the size of the markets for our products, the rate at which such markets develop, and the level of capital spending by end customers. We cannot assure you of the rate, or extent to which, capital spending by end customers will grow, if at all.

Our revenues and profits may fluctuate because of factors that are beyond our control. As a result, we may fail to meet the expectations of security analysts and investors, which could cause our stock price to decline.

Our ability to project revenues is limited because a significant portion of our quarterly revenues may be derived from orders placed and shipped in the same quarter, which we call our "turns business." Our turns

business varies widely from quarter to quarter. Our customers may delay product orders and reduce delivery lead-time expectations, which may reduce our ability to project revenues beyond the current quarter. While we regularly evaluate end users' and contract manufacturers' inventory levels of our products to assess the impact of their inventories on our projected turns business, we do not have complete information on their inventories. This could cause our projections of a quarter's turns business to be inaccurate, leading to lower revenues than projected.

We may fail to meet our forecasts if our customers cancel or delay the purchase of our products or if we are unable to meet their demand.

We rely on customer forecasts in order to estimate the appropriate levels of inventory to build and to project our future revenues. Many of our customers have numerous product lines, numerous component requirements for each product, sizeable and complex supplier structures, and typically engage contract manufacturers for additional manufacturing capacity. This complex supply chain creates several variables that make it complicated to accurately forecast our customers' demand and accurately monitor their inventory levels of our products. If customer forecasts are not accurate, we may build too much inventory, potentially leaving us with excess and obsolete inventory, which would reduce our profit margins and adversely affect our operating results. Conversely, we may build too little inventory to meet customer demand causing us to miss revenue-generating opportunities. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to the failure of anticipated orders to materialize, could result in our holding excess or obsolete inventory, which could in turn result in write-downs of inventory. This difficulty may be compounded when we sell to OEMs indirectly through distributors and other resellers or contract manufacturers, or both, as our forecasts of demand are then based on estimates provided by multiple parties.

Our customers often shift buying patterns as they manage inventory levels, market different products, or change production schedules. This makes forecasting their production requirements difficult and can lead to an inventory surplus or shortage of certain components. In addition, our products vary in terms of the profit margins they generate. If our customers purchase a greater proportion of our lower margin parts in a particular period, it would adversely impact our results of operations.

Further, our distributors provide us with periodic reports of their backlog to end customers, sales to end customers and quantities of our products that they have on hand. If the data that is provided to us is inaccurate, it could lead to inaccurate forecasting of our revenues or errors in our reported revenues, gross profit and net income.

While backlog is our best estimate of our next quarter's expectations of revenues, it is industry practice to allow customers to cancel, change or defer orders with limited advance notice prior to shipment. As such, backlog may be an unreliable indicator of future revenue levels. Because a significant portion of our operating expenses is fixed, even a small revenue shortfall can have a disproportionately negative effect on our operating results.

We rely on a few customers for a major portion of our sales, any one of which could materially impact our revenues should they change their ordering pattern. The loss of a key customer could materially impact our results of operations.

We depend on a limited number of customers for large portions of our net revenues. In 2011, we had two end customers that accounted for more than 10% of our net revenues, namely, HP and EMC. In 2010 and 2009, we had one end customer that accounted for more than 10% of our net revenues, namely HP.

In 2011 and in 2010, our top ten customers accounted for more than 60% of our net revenues. In 2009, our top ten customers accounted for more than 70% of our net revenues. We do not have long-term volume purchase commitments from any of our major customers. We sell our products solely on the basis of purchase orders.

Those customers could decide to cease purchasing products with little or no notice and without significant penalties. A number of factors could cause our customers to cancel or defer orders, including interruptions to their operations due to a downturn in their industries, delays in manufacturing their own product offerings into which our products are incorporated, and natural disasters. Accordingly, our future operating results will continue to depend on the success of our largest customers and on our ability to sell existing and new products to these customers in significant quantities.

The loss of a key customer, or a reduction in our sales to any major customer or our inability to attract new significant customers could materially and adversely affect our business, financial condition or results of operations.

We generate a portion of our sales through third-party distribution agreements. Termination of a distributor agreement either by us or a distributor, could result in a temporary or permanent loss of revenue, if we cannot establish an alternative distributor to manage this portion of our business, or we are unable to service the related end customers directly. Further, if we terminate a distributor agreement, we may be required to repurchase unsold inventory held by the distributor. We maintain a reserve for estimated returns. If actual returns exceed our estimate, there may be an adverse effect on our operating results.

If the demand for our customers' products declines, demand for our products will be similarly affected and our revenues, gross margins and operating performance will be adversely affected.

Our customers are subject to their own business cycles, most of which are unpredictable in commencement, depth and duration. We cannot accurately predict the continued demand of our customers' products and the demands of our customers for our products. In the past, networking customers have reduced capital spending without notice, adversely affecting our revenues. As a result of this uncertainty, our past operating results may not be indicative of our future operating results. It is possible that, in future periods, our results may be below the expectations of public market analysts and investors. This could cause the market price of our common stock to decline.

Changes in the political and economic climate in the countries in which we do business may adversely affect our operating results.

We earn a substantial proportion of our revenues in Asia. We conduct an increasing portion of our research and development and manufacturing activities outside North America. We procure substantially all of our wafers from Taiwan and use assemblers and testers throughout Asia.

Given the depth of our sales and operations in Asia, we face risks that could negatively impact our results of operations, including economic sanctions imposed by the U.S. government, imposition of tariffs and other potential trade barriers or regulations, uncertain protection for intellectual property rights and generally longer receivable collection periods. In addition, fluctuations in foreign currency exchange rates could adversely affect the revenues, net income, earnings per share and cash flow of our operations in affected markets. Similarly, fluctuations in exchange rates may affect demand for our products in foreign markets or our cost competitiveness and may adversely affect our profitability.

Our results of operations continue to be influenced by our sales in Asia on a bill-to basis. Government agencies in this region have broad discretion and authority over many aspects of the telecommunications and information technology industry. Accordingly, their decisions may impact our ability to do business in this region, and significant changes in this region's political and economic conditions and governmental policies could have a substantial negative impact on our business.

The loss of key personnel could delay us from designing new products.

To succeed, we must retain and hire technical personnel highly skilled at design and test functions needed to develop high-speed networking products. The competition for such employees is intense.

We do not have employment agreements in place with many of our key personnel. As employee incentives, we issue common stock options and restricted stock grants that are subject to time vesting, and, in the case of options, have exercise prices at the market value on the grant date. As our stock price varies substantially, the equity awards to employees are effective as retention incentives only if they have economic value.

Our revenues may decline if we do not maintain a competitive portfolio of products or if we fail to secure design wins.

We are experiencing significantly greater competition in the markets in which we participate. We are expanding into market segments, such as the Storage, Mobile and Optical market segments, which have established incumbents with substantial financial and technological resources. We expect more intense competition than that which we have traditionally faced as some of these incumbents derive a majority of their earnings from these markets.

We typically face competition at the design stage, where customers evaluate alternative design approaches requiring integrated circuits. We often compete in bid selection processes to achieve design wins. These selection processes can be lengthy and can require us to invest significant effort and incur significant design and development expenditures. We may not win competitive selection processes and even if we do win such processes, we may not generate the expected level of revenue despite incurring significant design and development expenditures. Because the life cycles of our customers' products can last several years and changing suppliers involves significant cost, time, effort and risk, our failure to win a competitive bid can result in our foregoing revenue from a given customer's product line for the life of that product.

The markets for our products are intensely competitive and subject to rapid technological advancement in design tools, wafer manufacturing techniques, process tools and alternate networking technologies. We may not be able to develop new products at competitive pricing and performance levels. Even if we are able to do so, we may not complete a new product and introduce it to market in a timely manner. Our customers may substitute use of our products in their next generation equipment with those of current or future competitors, reducing our future revenues. With the shortening product life and design-in cycles in many of our customers' products, our competitors may have more opportunities to supplant our products in next generation systems.

Our customers are increasingly price conscious, as semiconductors sourced from third party suppliers comprise a greater portion of the total materials cost in networking equipment. We continue to experience aggressive price competition from competitors that wish to enter into the market segments in which we participate. These circumstances may make some of our products less competitive, and we may be forced to decrease our prices significantly to win a design. We may lose design opportunities or may experience overall declines in gross margins as a result of increased price competition.

Over the next few years, we expect additional competitors, some of which may also have greater financial and other resources, to enter these markets with new products. These companies, individually or collectively, could represent future competition for many design wins and subsequent product sales.

Design wins do not translate into near-term revenues and the timing of revenues from newly designed products is often uncertain.

From time to time, we announce new products and design wins for existing and new products. While some industry analysts may use design wins as a metric for future revenues, many design wins have not, and will not, generate any revenues for us, as customer projects are cancelled or unsuccessful in their end market. In the event a design win generates revenues, the amount of revenues will vary greatly from one design win to another. In addition, most revenue-generating design wins do not translate into near-term revenues. Most revenue-generating design wins take more than two years to generate meaningful revenues.

Since many of the products we develop do not reach full production sales volumes for a number of years, we may incorrectly anticipate market demand and develop products that achieve little or no market acceptance.

Our products generally take between 12 and 24 months from initial conceptualization to development of a viable prototype, and another three to 18 months to be designed into our customers' equipment and sold in production quantities. We sell products whose characteristics include evolving industry standards, short product life spans and new manufacturing and design technologies. Our products often must be redesigned because manufacturing yields on prototypes are unacceptable or customers redefine their products to meet changing industry standards or customer specifications. As a result, we develop products many years before volume production and may inaccurately anticipate our customers' needs. Redesigning our products is expensive and may delay production of our products. Our products may become obsolete during these delays, resulting in our inability to recoup our initial investments in product development.

We may be unsuccessful in transitioning the design of our new products to new manufacturing processes.

Many of our new products are designed to take advantage of new manufacturing processes offering smaller device geometries as they become available, since smaller geometries can provide a product with improved features such as lower power requirements, increased performance, more functionality and lower cost. We believe that the transition of our products to, and introduction of new products using, smaller device geometries is critical for us to remain competitive. We could experience difficulties in migrating to future smaller device geometries or manufacturing processes, which would result in the delay of the production of our products. Our products may become obsolete during these delays, or allow competitors' parts to be chosen by customers during the design process.

The final determination of our income tax liability may be materially different from our income tax provision.

We are subject to income taxes in both the United States and international jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions where the ultimate tax determination is uncertain. Additionally, our calculations of income taxes are based on our interpretations of applicable tax laws in the jurisdictions in which we file. Although we believe our tax estimates are reasonable, there is no assurance that the final determination of our income tax liability will not be materially different than what is reflected in our income tax provisions and accruals. Should additional taxes be assessed as a result of new legislation, an audit or litigation, if our effective tax rate should change as a result of changes in federal, international or state and local tax laws, or if we were to change the locations where we operate, there could be a material effect on our income tax provision and results of operations in the period or periods in which that determination is made, and potentially to future periods as well.

The ultimate resolution of outstanding tax matters could be for amounts in excess of our reserves established. Such events could have a material adverse effect on our liquidity or cash flows in the quarter in which an adjustment is recorded or the tax payment is due.

If foreign exchange rates fluctuate significantly, our profitability may decline.

We are exposed to foreign currency rate fluctuations because a significant part of our development, test, and selling and administrative costs are incurred in foreign currencies. The U.S. dollar has fluctuated significantly compared to other foreign currencies and this trend may continue. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, we enter into foreign currency forward contracts. The contracts reduce, but do not eliminate, the impact of foreign currency exchange rate movements. In addition, this foreign currency risk management policy may not be effective in addressing long-term fluctuations since our contracts do not extend beyond a 12-month maturity.

We regularly limit our exposure to foreign exchange rate fluctuations from our foreign net asset or liability positions. We recorded a net $0.5 million foreign exchange gain on the revaluation of our income tax liability in 2011 because of the fluctuations in the U.S. dollar against certain foreign currencies. A five percent shift in the foreign exchange rates between the U.S. and Canadian dollar would cause an approximately $2.9 million impact to our pre-tax net income.

We are exposed to the credit risk of some of our customers.

Many of our customers employ contract manufacturers to produce their products and manage their inventories. Many of these contract manufacturers represent greater credit risk than our OEM customers, who do not guarantee our credit receivables related to their contract manufacturers.

In addition, a significant portion of our sales flow through our distribution channel, this generally represents a higher credit risk. Should these companies encounter financial difficulties, our revenues could decrease, and collection of our significant accounts receivables with these companies or other customers could be jeopardized.

Our business strategy contemplates acquisition of other products, technologies or businesses, which could adversely affect our operating performance.

Acquiring products, intellectual property, technologies and businesses from third parties is a core part of our business strategy. That strategy depends on the availability of suitable acquisition candidates at reasonable prices and our ability to resolve challenges associated with integrating acquired businesses into our existing business. These challenges include integration of product lines, sales forces, customer lists and manufacturing facilities, development of expertise outside our existing business, diversion of management time and resources, possible divestitures, inventory write-offs and other charges. We also may be forced to replace key personnel who may leave our company as a result of an acquisition. We cannot be certain that we will find suitable acquisition candidates or that we will be able to meet these challenges successfully. Acquisitions could also result in customer dissatisfaction, performance problems with the acquired company, investment, or technology, the assumption of contingent liabilities, or other unanticipated events or circumstances, any of which could harm our business. Consequently, we might not be successful in integrating any acquired businesses, products or technologies and may not achieve anticipated revenues and cost benefits.

An acquisition could absorb substantial cash resources, require us to incur or assume debt obligations, or issue additional equity. If we are not able to obtain financing, then we may not be in a position to consummate acquisitions. If we issue equity securities in connection with an acquisition, we may dilute our common stock with securities that have an equal or a senior interest in our company.

From time to time, we license, or acquire, technology from third parties to incorporate into our products. Incorporating technology into our products may be more costly or more difficult than expected, or require additional management attention to achieve the desired functionality. The complexity of our products could result in unforeseen or undetected defects or bugs, which could adversely affect the market acceptance of new products and damage our reputation with current or prospective customers.

Our current product roadmap will, in part, be dependent on successful acquisition and integration of intellectual property cores developed by third parties. If we experience difficulties in obtaining or integrating intellectual property from these third parties, it could delay or prevent the development of our products in the future.

Although our customers, our suppliers and we rigorously test our products, our highly complex products may contain defects or bugs. We have in the past experienced, and may in the future experience, defects and bugs in our products. If any of our products contain defects or bugs, or have reliability, quality or compatibility problems that are significant to our customers, our reputation may be damaged and customers may be reluctant to

buy our products. This could materially and adversely affect our ability to retain existing customers or attract new customers. In addition, these defects or bugs could interrupt or delay sales to our customers.

We may have to invest significant capital and other resources to alleviate problems with our products. If any of these problems are not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others. In addition, these problems may divert our technical and other resources from other development efforts. Moreover, we would likely lose or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers.

Industry consolidation may lead to increased competition and may harm our operating results.

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to improve the leverage of growing research and development costs, strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. Companies that are strategic alliance partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. We believe that industry consolidation may result in stronger competitors that are better able to compete as sole-source vendors for customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating results and financial condition.

Our business may be adversely affected if our customers or suppliers cannot obtain sufficient supplies of other components needed in their product offerings to meet their production projections and target quantities.

Some of our products are used by customers in conjunction with a number of other components, such as transceivers, microcontrollers and digital signal processors. If, for any reason, our customers experience a shortage of any component, their ability to produce the forecasted quantity of their product offerings may be affected adversely and our product sales would decline until the shortage is remedied. Such a situation could harm our operating results, cash flow and financial condition.

We rely on limited sources of wafer fabrication, the loss of which could delay and limit our product shipments.

We do not own or operate a wafer fabrication facility. In fiscal 2011, three outside wafer foundries supplied more than 95% of our semiconductor wafer requirements. Our wafer foundry suppliers also make products for other companies and some make products for themselves, thus we may not have access to adequate capacity or certain process technologies. We also have less control over delivery schedules, manufacturing yields and costs than competitors with their own fabrication facilities. If the wafer foundries we use are unable or unwilling to manufacture our products in required volumes, or at specified times, we may have to identify and qualify acceptable additional or alternative foundries. This qualification process could take six months or longer. We may not find sufficient capacity quickly enough or at an acceptable cost, to satisfy our production requirements.

Some companies that supply our customers are similarly dependent on a limited number of suppliers to produce their products. These other companies' products may be designed into the same networking equipment into which our products are designed. Our order levels could be reduced materially if these companies are unable to access sufficient production capacity to produce in volumes demanded by our customers because our customers may be forced to slow down or halt production on the equipment into which our products are designed.

We depend on third parties for the assembly and testing of our semiconductor products, which could delay and limit our product shipments.

We depend on third parties in Asia for the assembly and testing of our semiconductor products. In addition, subcontractors in Asia assemble all of our semiconductor products into a variety of packages. Raw material shortages, political, economic and social instability, assembly and testing house service disruptions, currency fluctuations, or other circumstances in the region could force us to seek additional or alternative sources of supply, assembly or testing. This could lead to supply constraints or product delivery delays that, in turn, may result in the loss of revenues. At times, capacity in the assembly industry has become scarce and lead times have lengthened. This capacity shortage may become more severe, which could in turn adversely affect our revenues. We have less control over delivery schedules, assembly processes, testing processes, quality assurances, raw material supplies and costs than competitors that do not outsource these tasks.

Due to the amount of time that it usually takes us to qualify assemblers and testers, we could experience significant delays in product shipments if we are required to find alternative assemblers or testers for our components. Any problems that we may encounter with the delivery, quality or cost of our products could damage our customer relationships and materially and adversely affect our results of operations. We are continuing to develop relationships with additional third-party subcontractors to assemble and test our products. However, even if we use these new subcontractors, we will continue to be subject to all of the risks described above.

Our business is vulnerable to interruption by earthquake, flooding, fire, power loss, telecommunications failure, terrorist activity and other events beyond our control.

We do not have sufficient business interruption insurance to compensate us for actual losses from interruption of our business that may occur, and any losses or damages incurred by us could have a material adverse effect on our business. We are vulnerable to a major earthquake and other calamities. We have operations in seismically active regions in California, Japan and British Columbia, Canada, and we rely on third-party suppliers, including wafer fabrication and testing facilities, in seismically active regions in Asia, which have recently experienced natural disasters. To the extent that manufacturing issues and any related component shortages result in delayed shipments in the future, and particularly in periods in which we and our contract manufacturers are operating at higher levels of capacity, it is possible that revenue for a quarter could be adversely affected if such matters occur and are not remediated within the same quarter.

We are unable to predict the effects of any such events, but the effects could be seriously harmful to our business.

Hostilities in the Middle East and India may have a significant impact on our Israeli and Indian subsidiaries' ability to conduct their business.

We have operations, which are primarily research and development facilities, located in Israel and India which employ approximately 280 and 130 people, respectively. A catastrophic event, such as a terrorist attack or the outbreak of hostilities that results in the destruction or disruption of any of our critical business or information technology systems in Israel or India could harm our ability to conduct normal business operations and therefore negatively impact our operating results.

On an on-going basis, some of our Israeli employees are periodically called into active military duty. In the event of severe hostilities breaking out, a significant number of our Israeli employees may be called into active military duty, resulting in delays in various aspects of production, including product development schedules.

From time to time, we become defendants in legal proceedings about which we are unable to assess our exposure and which could become significant liabilities upon judgment.

We become defendants in legal proceedings from time to time. Companies in our industry have been subject to claims related to patent infringement and product liability, as well as contract and personal claims. We may not be able to accurately assess the risk related to these suits and we may be unable to accurately assess our level of exposure. These proceedings may result in material charges to our operating results in the future if our exposure is material and if our ability to assess our exposure becomes clearer.

If we cannot protect our proprietary technology, we may not be able to prevent competitors from copying or misappropriating our technology and selling similar products, which would harm our business.

To compete effectively, we must protect our intellectual property. We rely on a combination of patents, trademarks, copyrights, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. We hold numerous patents and have a number of pending patent applications. However, our portfolio of patents includes some that expired in 2010 and some that are expiring in subsequent years, which could have a negative effect on our ability to prevent competitors from duplicating certain of our products.

We might not succeed in obtaining patents from any of our pending applications. Even if we are awarded patents, they may not provide any meaningful protection or commercial advantage to us, as they may not be of sufficient scope or strength, or may not be issued in all countries where our products can be sold. In addition, our competitors may be able to design around our patents.

To protect our product technology, documentation and other proprietary information, we enter into confidentiality agreements with our employees, customers, consultants and strategic partners. We require our employees to acknowledge their obligation to maintain confidentiality with respect to PMC's products. Despite these efforts, we cannot guarantee that these parties will maintain the confidentiality of our proprietary information in the course of future employment or working with other business partners. We develop, manufacture and sell our products in Asia and other countries that may not protect our intellectual property rights to the same extent as the laws of the United States. This makes piracy of our technology and products more likely. Steps we take to protect our proprietary information may not be adequate to prevent theft of our technology. We may not be able to prevent our competitors from independently developing technologies that are similar to or better than ours.

Our products employ technology that may infringe on the intellectual property and the proprietary rights of third parties, which may expose us to litigation and prevent us from selling our products.

Vigorous protection and pursuit of intellectual property rights or positions characterize the semiconductor industry. This often results in expensive and lengthy litigation. We, and our customers or suppliers, may be accused of infringing patents or other intellectual property rights owned by third parties in the future. An adverse result in any litigation against us or a customer or supplier could force us to pay substantial damages, stop manufacturing, using and selling the infringing products, spend significant resources to develop non-infringing technology, discontinue using certain processes or obtain licenses to the infringing technology. In addition, we may not be able to develop non-infringing technology or find appropriate licenses on reasonable terms or at all. Although some of our suppliers have agreed to indemnify us against certain intellectual property infringement claims or other losses relating to their products, these contractual indemnification rights may not cover the full extent of losses we incur as a result of these suppliers' products.

Patent disputes in the semiconductor industry are often settled through cross-licensing arrangements. Our portfolio of patents may not have the breadth to enable us to settle an alleged patent infringement claim through a cross-licensing arrangement. We may therefore be more exposed to third party claims than some of our larger competitors and customers.

The majority of our customers are required to obtain licenses from and pay royalties to third parties for the sale of systems incorporating our semiconductor devices. Customers may also make claims against us in connection with infringement claims made against them that relate to our products or components included in our products, even where we obtain the components from a supplier. For example, we have been notified by two customers of patent infringement claims by BIAX Corporation, allegedly involving components that we obtain from a supplier and use in our products. While we have not incurred any losses from these claims to date or been made a party to the related litigation, we are currently reviewing these claims and our indemnification obligations and rights as well as supporting our customers' efforts to defend these claims against them. We are incurring costs associated with this work and responding to BIAX Corporation's subpoena. Further, there can be no assurance that we will not incur future losses in connection with such claims or, if we incur any losses, that we will be fully indemnified against such losses by the supplier.

Furthermore, we may initiate claims or litigation against third parties for infringing our proprietary rights or to establish the validity of our proprietary rights. This could consume significant resources and divert the efforts of our technical and management personnel, regardless of the litigation's outcome.

We may be subject to intellectual property theft or misuse, which could result in third-party claims and harm our business and results of operations.

We regularly face attempts by others to gain unauthorized access through the Internet to our information technology systems, such as when such parties masquerade as authorized users or surreptitiously introduce software. We might become a target of computer hackers who create viruses to sabotage or otherwise attack our products and services. Hackers might attempt to penetrate our network security and gain access to our network and our data centers, misappropriate our or our customers' proprietary information, including personally identifiable information, or cause interruptions of our internal systems and services. We seek to detect and investigate these security incidents and to prevent their recurrence, but in some cases we might be unaware of an incident or its magnitude and effects. The theft or unauthorized use or publication of our trade secrets and other confidential business information as a result of such an incident could adversely affect our competitive position and reduce marketplace acceptance of our products; the value of our investment in R&D, product development, and marketing could be reduced; and third parties might assert against us or our customers claims related to resulting losses of confidential or proprietary information or end-user data, or system reliability. Our business could be subject to significant disruption, and we could suffer monetary and other losses, including the cost of product recalls and returns and reputational harm, in the event of such incidents and claims.

Securities we issue to fund our operations could dilute your ownership.

We may decide to raise additional funds through public or private debt or equity financing. If we raise funds by issuing equity securities, the percentage ownership of current stockholders will be reduced and the new equity securities may have priority rights to your investment. We may not obtain sufficient financing on terms that are favorable to you or us. We may delay, limit or eliminate some or all of our proposed operations if adequate funds are not available.

Our stock price has been and may continue to be volatile.

We expect that the price of our common stock will continue to fluctuate significantly, as it has in the past. In particular, fluctuations in our stock price and our price-to-earnings multiple may have made our stock attractive to momentum, hedge or day-trading investors who often shift funds into and out of stocks rapidly, exacerbating price fluctuations in either direction particularly when viewed on a quarterly basis.

Securities class action litigation has often been instituted against a company following periods of volatility and decline in the market price of their securities. If instituted against us, regardless of the outcome, such

litigation could result in substantial costs and diversion of our management's attention and resources and have a material adverse effect on our business, financial condition and operating results. In addition, we could incur substantial punitive and other damages relating to such litigation.

Provisions in Delaware law and our charter documents may delay or prevent another entity from acquiring us without the consent of our Board of Directors.

Our Board of Directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer. Delaware law imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock.

Although we believe these provisions of our charter documents and Delaware law will provide for an opportunity to receive a higher bid by requiring potential acquirers to negotiate with our Board of Directors, these provisions apply even if the offer may be considered beneficial by some stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

During 2011, we leased properties in 34 locations worldwide. During the year, we reduced our total leased area from approximately 578,000 square feet to approximately 472,000 square feet. Approximately 2% of the space we leased was excess at December 31, 2011 and 100% of the excess space has been subleased.

We lease approximately 62,000 square feet in Sunnyvale, California, to house our U.S. design, engineering, sales and marketing operations.

Our Canadian operations are primarily located in Burnaby, British Columbia where we lease approximately 149,000 square feet of office space. This location supports a significant portion of our product development, manufacturing, marketing, sales and testing activities.

In addition to the two major sites in Sunnyvale and Burnaby, during 2011 we also operated fourteen additional research and development centers: three in Canada, five in the U.S., one in Bangalore, India, two in Israel, two in Germany, and one in Shanghai, China.

We have 18 sales/operations offices located in Europe, Asia, and North America.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Stock Price Information

Our Common Stock trades on the NASDAQ Global Select Market under the symbol PMCS. The following table sets forth, for the periods indicated, the high and low closing sale prices for our Common Stock as reported by the NASDAQ Global Select Market:

Fiscal 2011	High	Low
First Quarter	$9.16	$7.36
Second Quarter	8.09	6.98
Third Quarter	7.79	5.38
Fourth Quarter	6.83	4.98

Fiscal 2010	High	Low
First Quarter	$9.21	$7.76
Second Quarter	9.60	7.49
Third Quarter	8.47	6.91
Fourth Quarter	8.49	7.01

To maintain consistency, the information provided above is based on the last day of the calendar quarter rather than the last day of the fiscal quarter.

Stockholders

As of February 24, 2012, there were 887 holders of record of our Common Stock.

Dividends

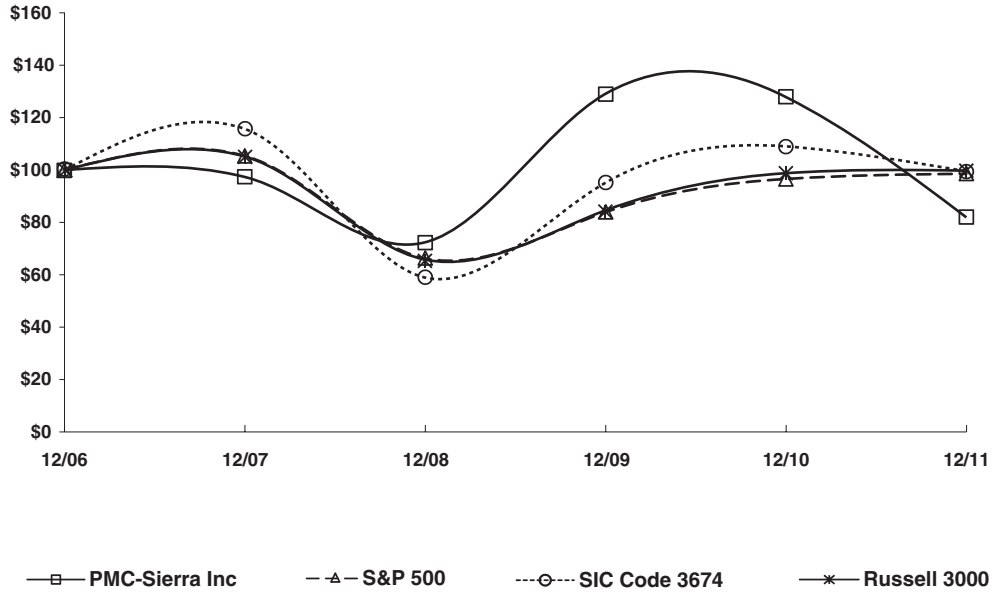
We have never paid cash dividends on our Common Stock. We currently intend to retain earnings, if any, for use in our business or to fund acquisitions and do not anticipate paying any cash dividends in the foreseeable future.

Stock Performance Graph

The following graph shows a comparison of cumulative total stockholder returns for PMC, the line-of-business index for semiconductors and related devices (SIC code 3674) furnished by Research Data Group, Inc., and the S&P 500 Index. In addition, we have included the Russell 3000 Index, a broad equity market index in which we are included. We have determined that the companies included in the Russell 3000 Index more closely match our company characteristics than the companies included in the S&P 500 Index, as the Russell 3000 Index includes companies in the semiconductor industry and related industries with similar size and median market capitalization. The graph assumes the investment of $100 on December 31, 2006. The performance shown is not necessarily indicative of future performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among PMC-Sierra Inc, the S&P 500 Index,
the Russell 3000 Index, and SIC Code 3674



*$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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SOURCE: RESEARCH DATA GROUP, INC.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth data from our consolidated financial statements for each of the last five fiscal years.

	Year Ended (in thousands, except for per share data)				
	December 31, 2011[1]	December 26, 2010[2]	December 27, 2009[3]	December 28, 2008[4]	December 30, 2007[5]
STATEMENT OF OPERATIONS DATA:					
Net revenues	$ 654,304	$ 635,082	$ 496,139	$525,075	$ 449,381
Cost of revenues	211,630	204,518	165,231	181,642	158,297
Gross profit	442,674	430,564	330,908	343,433	291,084
Research and development	227,106	187,467	149,184	157,642	159,134
Selling, general and administrative	118,601	104,117	84,942	93,532	100,486
Amortization of purchased intangible assets	44,182	29,932	39,344	39,344	39,343
Restructuring costs and other charges	—	403	888	824	14,837
Income (loss) from operations	52,785	108,645	56,550	52,091	(22,716)
Revaluation of liability for contingent consideration	29,376	—	—	—	—
Gain (loss) on sale of investment securities and other	845	3,978	(367)	(15,690)	—
Amortization of debt issue costs and gain on extinguishment of debt	(200)	(200)	(200)	14,568	(680)
Foreign exchange gain (loss)	344	(2,360)	(2,371)	8,068	(18,486)
Interest (expense) income, net	(2,267)	(1,248)	(2,511)	(757)	1,497
Gain on disposition of investment in Wintegra, Inc.	—	4,509	—	—	—
Recovery of (provision for) income taxes	3,816	(30,162)	(4,224)	70,017	(16,848)
Net income (loss)	$ 84,699	$ 83,162	$ 46,877	$128,297	$ (57,233)
Net income (loss) per share—basic	$ 0.36	$ 0.36	$ 0.21	$ 0.58	$ (0.26)
Net income (loss) per share—diluted	$ 0.36	$ 0.35	$ 0.20	$ 0.57	$ (0.26)
Shares used in per share calculation—basic	233,210	231,427	226,225	221,659	216,330
Shares used in per share calculation—diluted	235,184	234,787	229,567	223,687	216,330

	As at				
	December 31, 2011[1]	December 26, 2010[2]	December 27, 2009[3]	December 28, 2008[4]	December 30, 2007[5]
			(in thousands)		
BALANCE SHEET DATA:					
Working capital	$ 213,780	$ 154,264	$ 229,547	$284,316	$ 280,575
Cash and cash equivalents	182,571	293,355	192,841	97,839	364,922
Short-term investments	104,391	54,801	67,928	209,685	—
Long-term investment securities	226,619	235,369	192,636	—	—
Total assets	1,399,439	1,526,546	1,115,477	969,965	1,130,535
Short-term loan	—	180,991	—	—	—
Convertible notes	65,122	61,605	58,356	55,357	173,130
Liability for contingent consideration	—	28,194	—	—	—
Long-term obligations	1,284	8,940	6,211	503	958
Stockholders' equity	1,104,473	1,019,071	880,523	779,258	646,403

There were no cash dividends issued during the years ended December 31, 2011 December 26, 2010, December 27, 2009, December 28, 2008, and December 30, 2007.

(1) Results for the year ended December 31, 2011 include $0.9 million stock-based compensation expense and $9.1 million acquisition-related costs included in Cost of revenues; $11.6 million stock-based compensation, $3 million asset impairment, and $0.2 million acquisition-related costs included in Research and development expenses; $14.5 million stock-based compensation, $3.5 million acquisition-related costs, and $2.8 million lease exit costs included in Selling, general and administrative expense; $0.6 million foreign exchange gain on foreign tax liabilities; $3.5 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; $1.2 million accretion of liability for contingent consideration and $0.3 million interest expense related to short-term loan included in Interest (expense) income, net; $0.5 million recovery of impairment on investment securities and other, included in Gain (loss) on sale of investment securities and other; and $3.8 million recovery of income taxes, including $9.9 million income tax recovery for adjustments relating to prior periods, $6.5 million income tax provision relating to inter-company transactions, $3.2 million income tax provision relating to income from operating results, $1 million income tax recovery related to foreign tax credits, $0.6 million of stock option related loss carry-forwards recognized in equity, $0.5 million net tax recovery related to foreign exchange translation of a foreign subsidiary, $0.2 million recovery of arrears interest relating to unrecognized tax benefits, $0.2 million income tax recovery related to stock-based compensation, and $2.4 million deferred tax recovery related to non-deductible intangible asset amortization.

(2) Results for the year ended December 26, 2010 include $0.8 million stock-based compensation expense and $1.0 million acquisition-related costs included in Cost of revenues; $9 million stock-based compensation and $4.9 million asset impairment included in Research and development expenses; $12.1 million stock-based compensation and $6.9 million acquisition related costs included in Selling, general and administrative expense; $3.8 million recovery of impairment on investment securities included in Gain (loss) on investment securities and other; $1.8 million foreign exchange loss on foreign tax liabilities; $3.2 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; $1.1 million interest expense related to short-term loan; and $30.2 million net income tax provision, including $13.4 million sheltered by the benefit of stock option related loss carry-forwards recognized in equity, $7.8 million income tax provision relating to income from operating results, $4.8 million income tax provision relating to inter-company transactions, $5.5 million income tax provision for adjustments relating to prior periods, $4.1 million net tax recovery relating to foreign exchange translation of a foreign subsidiary, $3.7 million arrears interest relating to unrecognized tax benefits, $0.6 million deferred tax recovery related to non-deductible intangible asset amortization, and $0.3 million tax recovery related to stock-based compensation.

(3) Results for the year ended December 27, 2009 include $0.8 million stock-based compensation expense included in Cost of revenues; $8.7 million stock-based compensation expense and $1.0 million termination costs included in Research and development expenses; $12.0 million stock-based compensation expense and $0.6 million termination costs included in Selling, general and administrative expenses; $0.5 million loss on subleased facilities included in Gain (loss) on investment securities and other; $3.0 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; $2.7 million foreign exchange loss on foreign tax liabilities; $0.5 million loss on subleased facilities; and $4.2 million income tax recovery which includes $6.5 million net tax recovery relating to foreign exchange translation of a foreign subsidiary, $5.0 million tax provision relating to intercompany transactions, $4.8 million income tax provision relating to income from operating results, $1.5 million tax provision based on completed filings and assessments received from tax authorities, $1.5 million arrears interest relating to unrecognized tax benefits and $2.1 million deferred tax recovery related to non-deductible intangible asset amortization.

(4) Results for the year ended December 28, 2008 include $1.1 million stock-based compensation expense included in Cost of revenues; $11.2 million stock-based compensation expense included in Research and development expenses; $12.5 million stock based compensation expense included in Selling, general and

administrative expenses; $11.8 million loss on investments, $4.3 million asset impairment and $0.4 million recovery on investments included in Gain (loss) on sale of investment securities and other; $5.6 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; $8.2 million foreign exchange gain on foreign tax liabilities; $15.0 million gain on repurchase of senior convertible notes, net; and $70.0 million net income tax recovery including $98.0 million net adjustment to the accrual for unrecognized tax benefits, $22.1 million income tax provision relating to income from operating results, $8.2 million tax expense relating to foreign exchange translation of a foreign subsidiary, $3.0 million tax recovery based on completed tax filings and assessments, $3.1 million arrears interest relating to unrecognized tax benefits, $2.3 million tax provision relating to the tax effect on an intercompany dividend, $1.4 million deferred tax recovery related to the asset impairment related to the termination of a supplier contract, $2.0 million deferred tax recovery related to non-deductible intangible asset amortization, and $1.3 million deferred tax recovery related to the impairment of investment securities.

(5) Results for the year ended December 30, 2007 include $1.7 million stock-based compensation expense included in Cost of revenues; $16.6 million stock-based compensation expense included in Research and development expenses; $17.1 million stock-based compensation expense and $2.2 million reversal of an accrual for payroll-related taxes, included in Selling, general and administrative expenses; $8.4 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; $18.2 million foreign exchange loss on our income tax liability; and $16.8 million net income tax provision, including $22.4 million income tax provision relating to income from operating results, $13.1 million of interest relating to the liability for unrecognized tax benefits of prior years, $6.2 million tax recovery related to foreign exchange translation of a foreign subsidiary, $6.7 million tax recovery based on completed tax filings and assessments, $3.8 million recovery of future income taxes, and $2.0 million deferred tax recovery related to non-deductible intangible asset amortization.

Quarterly Comparisons

	Quarterly Data (in thousands except for per share data)							
	Year Ended December 31, 2011				Year Ended December 26, 2010			
	Fourth[1]	Third[2]	Second[3]	First[4]	Fourth[5]	Third[6]	Second[7]	First[8]
STATEMENT OF OPERATIONS DATA:								
Net revenues	$152,553	$173,299	$171,018	$157,434	$159,252	$162,335	$160,669	$152,826
Cost of revenues	47,166	52,640	52,663	59,161	51,636	53,813	50,064	49,005
Gross profit	105,387	120,659	118,355	98,273	107,616	108,522	110,605	103,821
Research and development	56,517	59,669	56,421	54,499	51,574	50,180	43,646	42,067
Selling, general and administrative	27,045	29,981	29,366	32,209	30,969	25,567	25,196	22,385
Amortization of purchased intangible assets	11,099	11,031	11,031	11,021	7,396	5,884	6,816	9,836
Restructuring costs and other charges	—	—	—	—	81	66	—	256
Income from operations	10,726	19,978	21,537	544	17,596	26,825	34,947	29,277
Revaluation of liability for contingent consideration	—	29,376	—	—	—	—	—	—
Gain (loss) on sale of investment securities and other	286	222	167	170	4,057	220	(429)	130
Amortization of debt issue costs	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
Foreign exchange (loss) gain	(1,194)	3,635	(623)	(1,474)	(738)	(707)	74	(989)
Interest (expense) income, net	(295)	(477)	(571)	(924)	(1,170)	68	(25)	(121)
Gain on disposition of investment in Wintegra, Inc.	—	—	—	—	4,509	—	—	—
Recovery of (provision for) income taxes	18,892	(5,428)	(3,725)	(5,923)	(13,290)	(11,201)	(4,411)	(1,260)
Net income (loss)	$ 28,365	$ 47,256	$ 16,735	$ (7,657)	$ 10,914	$ 15,155	$ 30,106	$ 26,987
Net income (loss) per share—basic	$ 0.12	$ 0.20	$ 0.07	$ (0.03)	$ 0.05	$ 0.07	$ 0.13	$ 0.12
Net income (loss) per share—diluted	$ 0.12	$ 0.20	$ 0.07	$ (0.03)	$ 0.05	$ 0.06	$ 0.13	$ 0.12
Shares used in per share calculation—basic	231,199	232,590	234,992	234,058	232,942	231,966	230,997	229,804
Shares used in per share calculation—diluted	232,028	233,647	237,506	234,058	236,277	234,292	234,925	233,653

(1) Results include $0.2 million stock-based compensation expense included in Cost of revenues; $3 million stock-based compensation and $0.2 million acquisition-related costs included in Research and development expense; $3.5 million stock-based compensation expense, $0.8 million acquisition-related costs, and $0.6 million recovery of lease exit costs included in Selling, general and administrative; $0.5 million recovery of

impairment on investment securities and other included in Gain (loss) on sale of investment securities and other; $1.4 million foreign loss on foreign tax liabilities, $0.9 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; $0.5 million recovery of impairment on investment securities and other, included in Interest (expense) income, net; $18.9 million recovery of income taxes, including $10.2 million income tax recovery for adjustment relating to prior periods, $2.5 million reduction of stock option related loss carry-forwards recognized in equity, $1.8 million recovery of arrears interest relating to unrecognized tax benefits, $1 million income tax recovery related to foreign tax credits, $0.6 million net tax recovery relating to foreign exchange translation of a foreign subsidiary, $0.4 million income tax recovery relating to intercompany transactions, and $2.4 million deferred tax recovery related to non-deductible intangible asset amortization.

(2) Results include $0.2 million stock-based compensation expense included in Cost of revenues; $3 million stock-based compensation, $3.0 million asset impairment, and $0.1 million acquisition-related costs included in Research and development expense; $3.7 million stock-based compensation expense, and $0.5 million acquisition-related costs included in Selling, general and administrative; $3.2 million foreign exchange gain on foreign tax liabilities; $0.9 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes, and $0.4 million accretion of liability for contingent consideration included in Interest (expense) income, net; and $5.4 million provision for income taxes, including $1.6 million income tax provision relating to inter-company transactions, $0.9 million income tax provision relating to income from operating results; $0.8 million net tax expense relating to foreign exchange translation of a foreign subsidiary, $1.9 million stock option related loss carry-forwards recognized in equity, $0.4 million arrears interest relating to unrecognized tax benefits, $0.2 million income tax recovery for adjustments relating to prior periods, and $0.1 million income tax provision related to stock-based compensation.

(3) Results include $0.3 million stock-based compensation expense included in Cost of revenues; $2.9 million stock-based compensation expense and $0.1 million acquisition-related costs included in Research and development expense; $3.9 million stock-based compensation, and $1.1 million acquisition-related costs included in Selling and administrative expense; $0.3 million foreign exchange loss on foreign tax liabilities; $0.9 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes, and $0.3 million accretion of liability for contingent consideration included in Interest (expense) income, net; and $3.7 million provision for income taxes including $1.6 million income tax provision relating to inter-company transactions, $1.2 million net tax expense relating to foreign exchange translation of a foreign subsidiary, $1 million income tax provision relating to income from operating results, $0.9 million reduction of stock option related loss carry-forwards recognized in equity, $0.6 million arrears interest relating to unrecognized tax benefits, $0.5 million income tax provision for adjustments relating to prior periods, and $0.3 million income tax recovery related to stock-based compensation.

(4) Results include $0.2 million stock-based compensation expense and $9.0 million acquisition-related costs included in Cost of revenues; $2.7 million stock-based compensation expense and $0.2 million acquisition-related costs included in Research and development expense; $3.4 million stock-based compensation expense, $1.2 million acquisition-related costs and $3.4 million lease exit costs included in Selling, general and administrative expenses; $1 million foreign exchange loss on foreign tax liabilities; $0.9 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes, $0.5 million accretion of liability for contingent consideration, and $0.3 million interest related to short-term loan, included in Interest (expense) income, net; and $5.9 million provision for income taxes including $2.2 million stock option related loss carry-forwards recognized in equity, $3.6 million income tax provision relating to inter-company transactions, $1.9 million net tax recovery relating to foreign exchange translation of a foreign subsidiary, $1.4 million income tax provision relating to income from operating results, and $0.6 million arrears interest relating to unrecognized tax benefits.

(5) Results include $0.2 million stock-based compensation expense and $0.9 million acquisition related costs included in Cost of revenues; $2.3 million stock-based compensation expense included in Research and development expense; $3.1 million stock-based compensation expense and $4.7 million acquisition related

costs included in Selling, general and administrative expense; $3.8 million recovery of impairment on investment securities included in Gain (loss) on investment securities and other; $0.5 million foreign exchange loss on foreign tax liabilities; $0.8 million of non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; and $13.3 million net income tax provision, including $5.4 million stock option related loss carry-forwards recognized in equity, $2.5 million income tax provision relating to income from operating results, $2.9 million income tax provision for adjustments relating to prior periods, $1.9 million income tax provision relating to inter-company transactions, $1.6 million net tax recovery relating to foreign exchange translation of a foreign subsidiary, and $2.2 million arrears interest relating to unrecognized tax benefits.

(6) Results include $0.2 million stock-based compensation expense, and $0.1 million acquisition related costs included in Cost of revenues; $2.3 million stock-based compensation expense and $4.9 million asset impairment included in Research and development expense; $2.9 million stock-based compensation expense and $0.8 million acquisition related costs included in Selling, general and administrative expense; $0.3 million foreign exchange loss on foreign tax liabilities; $0.8 million non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; and $11.2 million net income tax provision, including $8 million stock option related loss carry-forwards recognized in equity, $2.6 million income tax provision adjustments relating to prior periods, $1.6 million income tax provision relating to income from operating results, $0.7 million income tax recovery relating to inter-company transactions, $0.6 million net tax recovery relating to the foreign exchange translation of a foreign subsidiary, $0.5 million arrears interest relating to unrecognized tax benefits, and $0.2 million tax recovery related to stock-based compensation.

(7) Results include $0.2 million stock-based compensation and $0.1 million acquisition related costs included in Cost of revenues; $0.2 million stock-based compensation expense included in Research and development expense; $3.3 million stock-based compensation expense and $1.5 million acquisition related costs included in Selling, general and administrative expense; $0.8 million non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; and $4.4 million net income tax provision, including $2.1 million tax provision relating to inter-company transactions, $1.7 million income tax provision relating to income from operating results, $0.5 million arrears interest relating to unrecognized tax benefits, $0.3 million net tax expense relating to foreign exchange translation of a foreign subsidiary, and $0.2 million deferred tax recovery related to non-deductible intangible asset amortization.

(8) Results include $0.2 million stock-based compensation included in Cost of revenues; $2.2 million stock-based compensation expense included in Research and development expense; $3 million stock-based compensation expense included in Selling, general and administrative; $1 million foreign exchange loss on foreign tax liabilities; $0.8 million non-cash interest expense for the accretion of the debt discount related to the senior convertible notes; and $1.3 million net income tax provision, including $2.1 million net tax recovery relating to foreign exchange translation of a foreign subsidiary, $2.0 million income tax provision relating to income from operating results, $1.5 million tax provision relating to inter-company transactions, $0.5 million arrears interest relating to unrecognized tax benefits, $0.5 million deferred tax recovery related to non-deductible intangible asset amortization, and $0.1 million tax provision relating to prior periods.

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

The following discussion of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report.

OVERVIEW

PMC-Sierra is a semiconductor innovator transforming networks that connect, move and store digital content. We generate revenues from the sale of semiconductor solutions that we have designed and developed or acquired. Almost all of our revenues in any given year come from the sale of semiconductors that are developed prior to that year. For example, 100% of our revenues in 2011 came from products developed or acquired in 2010 and earlier. After an individual product is released for production and announced it may take several years before that product generates any significant revenues.

Our current revenues are generated by a portfolio of approximately 640 products which we have designed and developed, or acquired.

PMC's diverse product portfolio enables many different types of communications network infrastructure equipment in three market segments: Storage, Mobile and Optical networks.

1. Our **Storage** products enable high-speed communication servers, switches and storage devices to store, manage and move large quantities of data securely;
2. Our **Mobile** products are used in wireless base stations, mobile backhaul, and aggregation equipment; and
3. Our **Optical** products are used in optical transport platforms, multi-services provisioning platforms, and edge routers where they gather, process and transmit disparate traffic to their next destination in the network.

We invest a substantial amount every year for the research and development of new semiconductor solutions. We determine the amount to invest in each semiconductor development based on our assessment of the future market opportunities for those components and the estimated return on investment. To compete globally, we must invest in technologies, products and businesses that are both growing in demand and are cost competitive in the geographic markets that we serve. Going forward, we plan to continue to focus on finding innovative solutions to meet our customers' needs while maintaining our operational efficiencies.

We continue to see the convergence of networks and build-outs by service providers who need to handle increasing levels of data and video traffic, as well as reduce their net work operating costs. We are seeing growth in demand for our wireline and wireless access products, as well as our metro optical transport solutions.

On June 8, 2010, we completed the acquisition of the Channel Storage business from Adaptec. The Channel Storage business includes Adaptec's RAID storage product line, a well-established global value added reseller customer base, and leading SSD cache performance solutions. We purchased the Channel Storage business from Adaptec because of its strategic and product fit with our existing enterprise storage products and its growth potential in the storage channel market segment.

On November 18, 2010, we completed the acquisition of Wintegra, a provider of highly integrated network processors optimized for mobile backhaul for 3G and 4G wireless and wireline broadband networks. The acquisition accelerates PMC's product offering in IP/Ethernet packet-based mobile backhaul equipment and fits strategically with its overall efforts to accelerate the transition of existing communications equipment to converged, packet-centric solutions.

We expect our microprocessor solutions to continue to ship into the laser printer market as well as the enterprise networking market.

Results of Operations

Net Revenues

(in millions)	2011	Change	2010	Change	2009
Net revenues	$654.3	3%	$635.1	28%	$496.1

Overall net revenues for 2011 increased by $19.2 million, or 3% compared to net revenues for 2010. On a year over year basis, net revenues generated from our product offerings in Storage, Mobile and Optical increased (decreased) by 11%, 34% and (23%), respectively.

Storage represented 60% of our net revenues in 2011 compared to 55% of our net revenues in 2010. Storage net revenues increased by 11% in 2011 compared to 2010. This increase was primarily due to higher volumes of our SAS devices shipped with the continued production ramp of our 6G SAS products and as customers continue to migrate from 3G to 6G platforms. Also, in 2011, we had a full year of revenues from our Channel Storage business that we purchased from Adaptec mid-year in 2010. These increases were partially offset by declines in volumes of our Fibre Channel and laser printer products in 2011, compared to 2010.

Mobile represented 15% of our net revenues in 2011 compared to 12% of our net revenues in 2010. Mobile net revenues increased by 34% in 2011 compared to 2010. This increase was mainly due to our acquisition of Wintegra in November 2010 and was partially offset by a decline in volumes of our legacy wireless products.

Optical represented 25% of our net revenues in 2011 compared to 33% of our net revenues in 2010. Optical net revenues decreased by 23% in 2011 compared to 2010. This was reflective of end market weakness during 2011 in the areas of metro and access as Asia customers worked through existing inventories and OEM customers built out their networks at lower rates than in the same period in 2010. We also experienced a reduction of sales volumes from legacy SONET, ATM and microprocessor products compared to 2010. This decrease was partially offset by growth in OTN sales volumes.

Overall net revenues for 2010 increased $139.0 million, or 28% compared to net revenues for 2009, primarily due to higher sales volume, including volume attributable to two acquisitions the Company completed during the year. The acquisitions of the Channel Storage business from Adaptec, and Wintegra, completed in 2010 generated additional net revenues of $40.2 million compared to 2009.

Storage represented 55% of our net revenues in 2010 compared to 47% of our net revenues in 2009. Storage net revenues increased by 51% in 2010 compared to 2009. We experienced broad-based market recovery in 2010 and a corresponding positive enterprise and corporate information technology spending environment. The increase in net revenues from our enterprise storage products was mainly driven by higher demand for our 4Gbps and 8Gbps Fibre Channel products, and continued deployment of 3G and 6G SAS platforms. In addition, we shipped more of our 6Gbps SAS RAID-on-Chip product, which started shipping in production volumes in the second quarter of 2009. Also, in 2010, we had additional revenues from our Channel Storage business that we purchased from Adaptec mid-year in 2010.

Mobile represented 12% of our net revenues in 2010 compared to 10% of our net revenues in 2009. Mobile net revenues increased by 44% in 2010 compared 2009. The increase was due primarily to increased demand from our Chinese OEM customers related to the communications networking infrastructure build out in those market segments, and from our acquisition of Wintegra in November 2010.

Optical represented 33% of our net revenues in 2010 compared to 43% of our net revenues in 2009. Net revenues contributed by the Optical products were similar in 2009 and 2010.

Gross Profit

(in millions)	2011	Change	2010	Change	2009
Gross profit	$442.7	3%	$430.6	30%	$330.9
Percentage of net revenues	68%		68%		67%

Gross profit for 2011 increased by $12.1 million over 2010. Gross profit as a percentage of net revenues was 68% in 2011 and 2010. During 2011, we recognized $9 million of fair value adjustments related to inventory acquired from Wintegra in November 2010 and sold during the first three months of 2011. As a result, gross profit as a percentage of net revenues for 2011 would have been 69% had it not been for this item. Other than the effect of purchase accounting for Wintegra as noted above, the underlying increase in gross profit is primarily due to product mix.

Gross profit for 2010 increased by $99.7 million over 2009. Gross profit as a percentage of net revenues was 68% in 2010 and 67% in 2009. The 1% increase in gross profit was attributable to product mix, applying fixed costs over higher sales volumes and having customer funded ASIC mask sets at zero margin during 2009, which we did not have in 2010.

Other Costs and Expenses

(in millions)	2011	Change	2010	Change	2009
Research and development	$227.1	21%	$187.5	26%	$149.2
Percentage of net revenues	35%		30%		30%
Selling, general and administrative	$118.6	14%	$104.1	23%	$ 84.9
Percentage of net revenues	18%		16%		17%
Amortization of purchased intangible assets	$ 44.2	48%	$ 29.9	(24)%	$ 39.3
Percentage of net revenues	7%		5%		8%
Restructuring costs and other charges	$ —	(100)%	$ 0.4	(56)%	$ 0.9
Percentage of net revenues	— %		— %		— %

Research and Development Expenses

Our research and development ("R&D") expenses were $227.1 million in 2011. This was $39.6 million or 21% higher compared to 2010. Payroll costs increased by $27.5 million due primarily to the completion of planned hiring and other payroll related costs from our acquisitions of the Channel Storage business and Wintegra in 2010. Office and facilities related costs also increased by $3.7 million including as a result of our acquisitions of the Channel Storage business and Wintegra in 2010. Also, there was an increase of $8.4 million in R&D expense due to higher tape-out and other project-related costs.

Our R&D expenses were $187.5 million in 2010. This was $38.3 million or 26% higher compared to 2009. Payroll costs increased by $19.6 million due primarily to the completion of planned hiring and other payroll related costs from our acquisitions of the Channel Storage business and Wintegra in 2010. Also, R&D expenses were higher due to an asset impairment of $4.9 million based on a determination that certain intangible assets were made redundant by assets acquired with our purchase of the Channel Storage business from Adaptec. Office and facilities related costs also increased by $3 million including as a result of our acquisitions of the Channel Storage business and Wintegra in 2010. Other R&D related costs were higher by $10.8 million mainly due to higher tape-out activity in 2010 compared to 2009.

Selling, General and Administrative Expenses

Our selling, general and administrative ("SG&A") expenses increased by $14.5 million in 2011, or 14% compared to 2010. The increase is primarily due to payroll-related costs, including from our acquisitions of the Channel Storage business and Wintegra in 2010. In addition, we recognized lease exit costs of $2.8 million in 2011.

In 2010, our SG&A expenses increased by $19.2 million, or 23% compared to 2009. $15.2 million of this increase resulted from the two acquisitions completed during 2010, including $6.9 million in acquisition-related costs. The remainder of the increase relates to the completion of planned hiring and other payroll related costs.

Amortization of Purchased Intangible Assets

Amortization expense for acquired intangible increased by $14.3 million, or 48% in 2011 compared to 2010. This increase was the result of increased amortization related to the intangible assets identified in the purchase price allocation for our acquisitions of the Channel Storage business from Adaptec, and Wintegra, in the amount of $1.1 million and $20 million, respectively. This increase was partially offset by a $6.8 million decrease resulting from intangibles related to the acquisition of Passave, Inc. becoming fully amortized early in the second quarter of 2010.

In 2010 amortization expense for acquired intangible assets decreased by $9.4 million, or 24% compared to 2009. The decrease was the result of intangibles related to the acquisition of Passave, Inc. becoming fully amortized early in the second quarter of 2010. Amortization expense for 2010 does include $2.4 million and $1.8 million of partial year amortization related to the intangible assets identified in the purchase price allocation for our acquisitions of the Channel Storage business from Adaptec and Wintegra, respectively.

Restructuring Costs and Other Charges

We incurred restructuring costs and other charges in 2011, 2010 and 2009 of $nil, $0.4 million and $0.9 million, respectively. All past restructuring plans were complete as at December 31, 2011.

For details on restructuring plans, please see within *Item 8. Financial Statements and Supplementary Data, the Notes to the Consolidated Financial Statements, Note 6. Supplemental Financial Information.*

OTHER INCOME AND EXPENSES

($ in millions)	2011	Change	2010	Change	2009
Revaluation of liability for contingent consideration	$29.4	100%	$ —	— %	$—
Gain (loss) on investment securities and other	$ 0.8	(80)%	$ 4.0	1,100%	$(0.4)
Amortization of debt issue costs	$ (0.2)	— %	$ (0.2)	— %	$(0.2)
Foreign exchange gain (loss)	$ 0.3	113%	$ (2.4)	— %	$(2.4)
Interest expense, net	$ (2.3)	(92)%	$ (1.2)	52%	$(2.5)
Gain on investment in Wintegra	$ —	(100)%	$ 4.5	100%	$—
Recovery of (provision for) income taxes	$ 3.8	113%	$(30.2)	(619)%	$(4.2)

Revaluation of liability for contingent consideration

During 2011, we recognized a revaluation of liability for contingent consideration related to our acquisition of Wintegra. We recognized a fair value adjustment relating to the liability based on the updated assessment during the third quarter of 2011 of Wintegra's 2011 revenues, which were below earn-out levels due to delayed

platform deployment from key suppliers in China and Europe. See *Item 8. Financial Statements and Supplementary Data, the Notes to the Consolidated Financial Statements, Note 11. Commitments and Contingencies.*

Gain (loss) on investment securities and other

In 2011, 2010 and 2009, we realized gain (loss) on sale of investment securities and other of $0.8 million, $4.0 million and $(0.4) million, respectively, as follows:

1. In 2011 and 2010, we recognized gains from the revaluation of our investments in the Reserve Funds of $0.2 million and $3.8 million, respectively based on distributions received from the Reserve Funds. There were no such gains or losses related to the Reserve Funds in 2009. See *Critical Accounting Policies and Estimates—Investments in Cash Equivalents, Short-Term Investments and Long-Term Investment Securities*;
2. We recorded a $0.5 million loss on subleased facilities during 2009. There was no loss on subleased facilities in 2011 and 2010; and
3. The remainder of the balances relate to the disposition of investment securities.

Amortization of debt issue costs

We recorded amortization of debt issue costs of $0.2 million, $0.2 million, and $0.2 million for 2011, 2010, and 2009, respectively.

Foreign exchange gain (loss)

We have significant design presence outside the United States, especially in Canada. The majority of our operating expense exposures to changes in the value of the Canadian dollar relative to the United States dollar have been hedged in accordance with our general practice of hedging approximately three quarters in advance.

Our net foreign exchange gain was $0.3 million in 2011, and we recorded a net foreign exchange loss of $2.4 million in each of 2010 and 2009, which was primarily due to foreign exchange gain (loss) on the revaluation of our net foreign tax liability. We do not hedge our income tax accruals against fluctuations in foreign currency exchange rates (see *Item 7A. Quantitative and Qualitative Disclosures About Market Risk*). The foreign exchange rate between the United States dollar and the currencies of countries where we have significant tax liabilities appreciated 2% during 2011, depreciated 4% during 2010, and depreciated 14% during 2009.

Interest expense, net

Our net interest expense for 2011, 2010, and 2009 was $2.3 million, $1.2 million, and $2.5 million, respectively.

In 2011, the increase in net interest expense of $1.1 million, compared to 2010 was due to lower investment yields and lower cash balances. In addition, we recognized $1.2 million of interest expense related to the accretion of the liability for contingent consideration in 2011, which was offset by the decline of $0.8 million interest on our short-term loan related to our acquisition of Wintegra in 2011 compared to 2010.

In 2010, the decrease in net interest expense of $1.3 million, compared to 2009, was due to an increase of $2.3 million in investment yields and higher cash balances, offset by $1.0 million interest expense on our short-term loan related to our acquisition of Wintegra.

Gain on investment in Wintegra, Inc.

On November 18, 2010 we acquired Wintegra. Prior to the acquisition date, we owned 2.6% of the outstanding shares in Wintegra. Upon acquiring the remaining equity interests of Wintegra, we recorded a gain on the step-acquisition on this pre-existing investment of $4.5 million.

Recovery of (provision for) Income Taxes

See *Item 8. Financial Statements and Supplementary Data, the Notes to the Consolidated Financial Statements, Note 15. Income Taxes.*

Business Outlook

We expect our revenues for the first quarter of 2012 to be approximately $130 million to $136 million. A number of factors such as volatile macroeconomic conditions could impact the achievement of our revenue outlook.

We anticipate our first quarter 2012 gross margin percentage to be in the range of 67.4%-68.4%, which includes approximately $0.2 million stock-based compensation expense. As in past quarters this could vary depending on the volumes of products sold, since many of our costs are fixed. Margins will also vary depending on the mix of products sold.

We expect our first quarter 2012 research and development and selling, general and administrative expenses to be approximately $95.2 million and $97.2 million, respectively, including, stock-based compensation expense of approximately $6 million to $7 million, and amortization of purchased intangible assets related to our past acquisitions of $11.2 million.

We anticipate that net interest expense will be approximately $0.4 million in the first quarter of 2012 as interest income earned from our cash position will be offset by interest expense incurred on our outstanding senior convertible notes.

The GAAP provision for income taxes is not available on a forward looking basis without unreasonable effort.

Liquidity and Capital Resources

Our principal sources of liquidity are cash from operations, our short-term investments and long-term investment securities. We employ these sources of liquidity to support ongoing business activities, acquire or invest in critical or complementary technologies, purchase capital equipment, repurchase and repay our loans and notes, and finance working capital. The combination of cash, cash equivalents, short-term investments and long-term investment securities at December 31, 2011, December 26, 2010 and December 27, 2009 totaled $513.6 million, $583.5 million and $453.4 million, respectively.

In November 2010, we obtained a short-term loan to facilitate the acquisition of Wintegra, the balance of which was $181.0 million as of December 26, 2010. We fully repaid this loan in January 2011.

At both December 31, 2011 and December 26, 2010, we had senior convertible notes with a total face value of $68.3 million outstanding. The Company may redeem all or a portion of the notes at par on and after October 20, 2012. The noteholders may require that the Company repurchase all or a portion of the notes on October 15, 2012. The Company believes it has adequate liquidity to discharge this liability should it be required in 2012.

In the future, we expect our cash on hand and cash generated from operations, together with our short-term investments, and long-term investment securities, to be our primary sources of liquidity.

The composition of our cash, cash equivalents and short-term investments and long-term investment securities, as classified in our Consolidated Balance Sheet at December 31, 2011 and at December 26, 2010 were as follows:

	December 31, 2011			
(in thousands)	Amortized Cost	Gross Unrealized Gains*	Gross Unrealized Losses*	Fair Value
Cash and cash equivalents:				
Cash	$127,983	$ —	$ —	$127,983
Money market funds	54,588	—	—	54,588
Total cash and cash equivalents	182,571	—	—	182,571
Short-term investments:				
Corporate bonds and notes	85,127	2,449	(34)	87,542
US Treasury and Government Agency notes	10,009	203	—	10,212
Foreign Government and Agency notes	6,540	97	—	6,637
Total short-term investments	101,676	2,749	(34)	104,391
Long-term investment securities:				
Corporate bonds and notes	166,741	688	(449)	166,980
US Treasury and Government Agency notes	52,054	123	(39)	52,138
Foreign Government and Agency notes	5,713	39	—	5,752
US States and Municipal securities	1,720	29	—	1,749
Total long-term investment securities	226,228	879	(488)	226,619
Total	$510,475	$3,628	$(522)	$513,581

* Gross unrealized gains include accrued interest on investments of $2.4 million. The remainder of the gross unrealized gains and losses is included in the Consolidated Balance Sheet as Other comprehensive income.

	December 26, 2010			
(in thousands)	Amortized Cost	Gross Unrealized Gains*	Gross Unrealized Losses*	Fair Value
Cash and cash equivalents:				
Cash	$ 52,125	$ —	$ —	$ 52,125
Corporate bonds and notes	30,321	—	—	30,321
US treasury and government agency notes	75,346	—	—	75,346
Money market funds	125,940	21	—	125,961
Foreign government and agency notes	802	—	—	802
US states and municipal securities	8,800	—	—	8,800
Total cash and cash equivalents	293,334	21	—	293,355
Short-term investments:				
Corporate bonds and notes	36,139	2,483	(1)	38,621
US Treasury and Government Agency notes	1,193	261	—	1,454
Foreign Government and Agency notes	7,435	279	—	7,714
US States and Municipal securities	6,940	72	—	7,012
Total short-term investments	51,707	3,095	(1)	54,801
Long-term investment securities:				
Corporate bonds and notes	169,590	1,338	(367)	170,561
US Treasury and Government Agency notes	47,877	188	(198)	47,867

(in thousands)	December 26, 2010			
	Amortized Cost	Gross Unrealized Gains*	Gross Unrealized Losses*	Fair Value
Foreign Government and Agency notes	15,065	158	—	15,223
US States and Municipal securities	1,720	—	(2)	1,718
Total long-term investment securities	234,252	1,684	(567)	235,369
Total	$579,293	$4,800	$(568)	$583,525

* Gross unrealized gains include accrued interest on investments of $2.7 million. The remainder of the gross unrealized gains and losses is included in the Consolidated Balance Sheet as Other comprehensive income.

The investments in the Reserve Funds, classified as cash and cash equivalents on the Consolidated Balance Sheet were recorded at a value of $nil at December 31, 2011 (2010—$22.4 million) and relate to shares of the International Fund and the Primary Fund. In 2011, we received $22.6 million from the International Fund and its liquidation was completed. The Primary Fund continues to be in the process of liquidation. We continue to hold shares of the Reserve Primary Fund with an original cost of $0.6 million, which are valued at $nil on the Consolidated Balance Sheet. See *Critical Accounting Policies and Estimates* under the *Investment in Cash Equivalents, Short-Term Investments and Long-Term Investment Securities.*

Operating Activities

Net revenues in 2011 grew by 3% compared to 2010 from $635.1 million to $654.3 million. Net income in 2011 of $84.7 million was slightly higher than the $83.2 million in 2010. While the cash generation in both years was strong, $160.8 million and $183.3 million for 2011 and 2010, respectively, the net decrease of $22.5 million in cash from operations results mainly from additional R&D investment for specific projects in 2011 and the full year effect of our 2010 acquisitions. In addition, the year-over-year net change in working capital items resulted in $27.3 million of cash used. The primary working capital items driving this net change were:

1. $20 million net increase in use of cash related to accounts payable and accrued liabilities, including for the settlement of 2010 liabilities assumed on our acquisition of Wintegra; and
2. $13.1 million net increase in use of cash related to income taxes;

Partially offset by:

3. other working capital changes, including $11.3 million greater net cash generated from accounts receivable with a slight decline in fourth quarter net revenues on a year-over-year basis.

Investing Activities

Cash used for investing activities was significantly higher in 2010 compared to 2011, with our acquisitions of Wintegra and the Channel Storage business of Adaptec. In 2010, we used $200 million to acquire Wintegra and $34.3 million to acquire the Channel Storage Business from Adaptec.

Cash balances were lower due to repaying $180 million of our short term loan borrowed in connection with our acquisition of Wintegra.

Financing Activities

During 2011 we used $40 million of cash to repurchase 6.1 million shares of our common stock. We also received $16.8 million from issuances of common stock.

In connection with the acquisition of Wintegra, we borrowed $220 million in 2010, $40 million of which was repaid in 2010. The remainder was repaid in January 2011.

CONTRACTUAL OBLIGATIONS:

At December 31, 2011, we had the following contractual obligations:

(in thousands)	Payments due in				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Lease Obligations:					
Minimum Rental Payments	$ 51,887	$ 8,612	$16,330	$12,971	$13,974
Estimated Operating Cost Payments	15,028	2,918	5,057	4,055	2,998
Senior Convertible Notes[1]:					
Principal Repayment	68,340	—	—	—	68,340
Interest Payments	21,527	1,538	3,075	3,075	13,839
Purchase and other Obligations[2]	15,082	13,780	1,302	—	—
Total	$171,864	$26,848	$25,764	$20,101	$99,151

(1) See *Item 8. Financial Statements and Supplementary Data, the Notes to the Consolidated Financial Statements, Note 10. Senior Convertible Notes* for further details.

(2) Included in the purchase commitments above is $15.1 million in design software tools, which will be paid between 2012 and 2014. This amount includes $1.3 million classified as long-term obligations in our Consolidated Balance Sheet for the year ended December 31, 2011. We have not included open purchase orders for inventory or other expenses issued in the normal course of business in the purchase obligations shown above. We estimate these other commitments to be approximately $38.9 million at January 9, 2012 for inventory and other expenses that will be received in the coming 90 days and that will require settlement 30 days thereafter.

We expect to spend approximately $37 million in 2012 for capital expenditures including purchases of intellectual property. Based on our current operating prospects, we believe that existing sources of liquidity will be sufficient to satisfy our projected operating, working capital, capital expenditure, purchase obligations and debt obligations through the next twelve months.

In addition to the amounts shown in the table above, we have recorded a $63.7 million liability for unrecognized tax benefits as of December 31, 2011, and we are uncertain as to if or when such amounts may be realized.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2011, we had no material off-balance sheet financing arrangements.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued amendments to disclosure requirements for common fair value measurement. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), provide common definitions of fair value and common fair value measurements and disclosure requirements between U.S. GAAP and International Financial Reporting Standards ("IFRS"). Consequently, the amendments change some fair value measurement principles and disclosure requirements. We will adopt this amendment effective the first quarter of fiscal 2012. The adoption of this amended accounting guidance is not expected to have a material impact on our consolidated financial position and results of operations.

In June 2011, the FASB issued amendments to disclosure requirements for the presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires the presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We will adopt this amendment effective the first quarter of fiscal 2012. The adoption of this amended accounting guidance is not expected to have a material impact on our consolidated financial position and results of operations.

In September 2011, the FASB issued Accounting Standards Update ("ASU") 2011-08, Testing Goodwill for Impairment. This ASU provides companies with the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If this qualitative criteria is not met, then performing the two-step impairment test is unnecessary. However, if a company concludes otherwise, then it is required to perform the first step of the two-step quantitative goodwill impairment test. If the carrying value of a reporting unit exceeds its fair value, then a company is required to perform the second step of this test. This guidance is effective for goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this amended accounting guidance is not expected to have a material impact on our consolidated financial position and results of operations.

Critical Accounting Policies and Estimates

General

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the amounts we report as assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are reasonable in the circumstances. These estimates could change under different assumptions or conditions.

Our significant accounting policies are outlined in the notes to the consolidated financial statements. In management's opinion the following critical accounting policies require the most significant judgment and involve complex estimation. We also have other policies that we consider to be key accounting policies, such as our policies of revenue recognition, including the deferral of revenues on sales to major distributors; however these policies do not meet the definition of critical accounting estimates as they do not generally require us to make estimates or judgments that are difficult or subjective.

Valuation of Goodwill and Intangible Assets

Purchase price allocations for business acquisitions often require significant judgments, particularly with regards to the determination of value for identifiable assets, liabilities and goodwill. Often third party specialists are used to assist in areas of valuation requiring complex estimation.

We assess long-lived assets for possible impairment in the fourth quarter, or when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we may consider when determining when to conduct an impairment test include: (i) any declines in our forecasted operating results; (ii) a decline in the valuation of technology company stocks, including the valuation of our common stock; (iii) a further significant slowdown in the worldwide economy or the semiconductor industry; or (iv) any failure to meet the performance projections included in our forecasts of future operating results.

We perform a two-step process on an annual basis, or more frequently if necessary, to determine 1) whether the fair value of the relevant reporting unit exceeds the carrying value and 2) the amount of an impairment loss, if any.

To determine whether impairment exists for long-lived intangible assets, other than goodwill, we first compare the undiscounted cash flows of the assets to their carrying value. If the asset's carrying value exceeds its estimated undiscounted cash flows, we would write the asset to its estimated fair value based on expected discounted cash flows.

Significant management judgment is required in the forecasts of future operating results and discount rates used in the discounted cash flow method of valuation. It is possible, however, that the plans may change and estimates used may prove to be inaccurate. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

There was no impairment to goodwill or intangible assets in 2011, except for the asset impairment of $3.6 million related to the write down of certain purchased intellectual property that is no longer expected to be leveraged due to changes in research and development project initiatives. The carrying value of these assets was no longer recoverable based on expected future cash flows associated with these assets. Accordingly, the carrying value was written down to zero. This impairment charge was included in the consolidated statement of operations in research and development expenses.

Changes in the estimated fair values of intangible assets in the future could result in significant impairment charges or changes to our expected amortization.

The aggregation of operating segments into one reportable segment requires the management to evaluate whether there are similar expected long-term economic characteristics for each operating segment, and is an area of significant judgment. If the expected long-term economic characteristics were to become dissimilar, then we could be required to re-evaluate the number of reportable segments.

Stock-Based Compensation

Since January 1, 2006, we have recognized compensation expense for all share-based payment awards. Under ASC Topic 718, *Compensation—Stock Compensation*, we measure the fair value of awards of equity instruments and recognize the cost, net of an estimated forfeiture rate, on a straight-line basis over the period during which services are provided in exchange for the award, generally the vesting period.

Calculating the fair value of stock-based compensation awards requires the input of highly subjective assumptions, including the expected life of the awards and expected volatility of our stock price. Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. Our estimates of expected volatilities are based on a weighted historical and market-based implied volatility. In order to determine the expected life of the awards, we use historical data to estimate option exercises and employee terminations; separate groups of employees that have similar historical exercise behavior, such as directors or executives, are considered separately for valuation purposes. The expected forfeiture rate applied in calculating stock-based compensation cost is estimated using historical data and is updated annually.

The assumptions used in calculating the fair value of stock-based awards involve estimates that require management judgment. If factors change and we use different assumptions, our stock-based compensation expense could change significantly in the future. In addition, if our actual forfeiture rate is different from our estimate, our stock-based compensation expense could change significantly in the future.

Income Taxes

PMC has operations in several tax jurisdictions, which subjects us to multiple tax rates that impact our overall effective tax rate. We use estimates and assumptions in allocating income to each tax jurisdiction. Certain foreign jurisdictions have granted economic incentives, which are subject to meeting certain criteria including levels of employment and investment. Accordingly, material changes in business activity that we conduct in foreign jurisdictions or failure to meet the aforementioned criteria could impact our effective tax rates.

We have recorded income tax liabilities based on our interpretation of tax regulations for the countries in which we operate. We believe that the tax return positions we have taken are fully supportable. However, our estimates are subject to review and assessment by the local tax authorities. Our tax expense and related reserve for unrecognized tax benefits reflect amounts that we believe will be adequate if challenged or subject to income tax assessment. Management uses judgment and estimates in determining tax expense for these challenges in accordance with guidance for accounting for uncertainty in income taxes. Currently, our reserve for uncertain tax positions is attributable primarily to uncertainties related to allocation of income among different jurisdictions.

The timing of any such review and final assessment of our liabilities is substantially out of our control and is dependent on the actions by those local tax authorities. Any re-assessment of our tax liabilities may result in adjustments of the income taxes we pay, with a resulting impact on our tax expense, net income and cash flows. We review our reserves quarterly, and we may adjust such reserves because of changes in facts and circumstances, changes in tax regulations, negotiations between tax authorities and associated proposed tax assessments, the resolution of audits and the expiration of statutes of limitations.

We must also assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a reserve in the form of a valuation allowance for the deferred tax assets that we estimate will not ultimately be recoverable.

Investment in Cash Equivalents, Short-Term Investments and Long-Term Investment Securities

Our cash equivalents, short-term investments and long-term investment securities are comprised of money market funds, United States Treasury and Government Agency notes, Federal Deposit Insurance Corporation ("FDIC")-insured corporate notes, United States State and Municipal Securities, foreign government and agency notes and corporate bonds and notes with minimum ratings of P-1 or A3 by Moody's, or A-1 or A- by Standard and Poor's, or equivalent at the date of purchase. At December 31, 2011, these securities had an estimated fair value of $385.6 million. *See Item 8. Financial Statements and Supplementary Data, the Notes to the Consolidated Financial Statements, Note 7. Investment Securities for details*.

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

The following discussion regarding our risk management activities contains "forward-looking statements" that involve risks and uncertainties. Actual results may differ materially from those projected in the forward-looking statements.

Cash, Cash Equivalents, Short-term Investments and Long-term Investment Securities

We regularly maintain a portfolio of short and long-term investments comprised of various types of money market funds, United States Treasury and Government Agency notes, FDIC-insured corporate notes, United States State and Municipal Securities, foreign government and agency notes and corporate bonds and notes. Our investments are made in accordance with an investment policy approved by our Board of Directors. All investments have maturities of 36 months or less. To minimize credit risk, we diversify our investments and select minimum ratings of P-1 or A3 by Moody's, or A-1 or A- by Standard and Poor's or equivalent at the time of purchase. We classify these securities as available-for-sale and they are carried at fair market value. Our corporate policies prevent us from holding material amounts of asset-backed commercial paper.

Investments in instruments with both fixed and floating rates carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted because of a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations because of changes in interest rates, or we may suffer losses in principal if we were to sell securities that have declined in market value because of changes in interest rates.

We do not attempt to reduce or eliminate our exposure to interest rate risk through the use of derivative financial instruments.

A 1% shift in interest rates would impact our annual pre-tax income by approximately $4.6 million.

Senior Convertible Notes:

At December 31, 2011, a principal amount of $68.3 million of these Notes remained outstanding and $0.2 million of unamortized debt issue costs were included in Investments and Other Assets.

Because we pay fixed interest coupons on these Notes, market interest rate fluctuations do not impact our debt interest payments. However, the fair value of the senior convertible Notes will fluctuate as a result of changes in the price of our common stock, changes in market interest rates and changes in our credit worthiness.

Our Notes are not listed on any exchange or included in any automated quotation system but are registered for resale under the Securities Act of 1933. See *Item 8. Financial Statements and Supplementary Data, the Notes to the Consolidated Financial Statements, Note 10. Senior Convertible Notes* for further details.

Foreign Currency

Our sales and corresponding receivables are denominated primarily in U.S. dollars. We generate a significant portion of our revenues from sales to customers located outside the United States including Canada, Europe, the Middle East and Asia. We are subject to risks typical of an international business including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange rate volatility. Accordingly, our future results could be materially adversely affected by changes in these or other factors.

Through our operations in Canada and elsewhere outside the United States, we incur research and development, sales, customer support and administrative expenses in Canadian and other foreign currencies. We are exposed, in the normal course of business, to foreign currency risks on these expenditures, particularly in Canada. In our effort to manage such risks, we have adopted a foreign currency risk management policy intended to reduce the effects of potential short-term fluctuations on our operating results stemming from our exposure to these risks. As part of this risk management strategy, we enter into foreign exchange forward contracts on behalf of our Canadian subsidiary. These forward contracts offset the impact of exchange rate fluctuations on forecasted cash flows or firm commitments. We limit the forward contracts operational period to 12 months or less, and we do not enter into foreign exchange forward contracts for trading purposes. Because we do not engage in foreign exchange risk management techniques beyond these periods, our cost structure is subject to long-term changes in foreign exchange rates.

As at December 31, 2011, we had 185 currency forward contracts outstanding that qualified and were designated as cash flow hedges. The U.S. dollar notional amount of these contracts was $73.1 million and the contracts had a fair value of $1.8 million loss.

We attempt to limit our exposure to foreign exchange rate fluctuations from our Canadian dollar net asset or liability positions. We do not hedge our income tax accruals against fluctuations in foreign currency exchange rates. A 5% shift in the foreign exchange rates between U.S. dollar and the Canadian dollar would impact pre-tax income by approximately $2.9 million.

Other Investments

From time-to-time, our other investments include strategic investments in privately held companies that are carried on our balance sheet at cost, net of write-downs for other than temporary declines in market value. These investments are inherently risky, as they typically are comprised of investments in companies and partnerships that are still in the start-up or development stages. The market for the technologies or products that they have under development is typically in the early stages, and may never materialize. We could lose our entire investment in these companies and partnerships or may incur an additional expense if we determine that the value of these assets has been impaired.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The chart entitled "Quarterly Data" contained in Item 6 Part II hereof is hereby incorporated by reference into the Item 8 of Part II of this Form 10-K.

Consolidated Financial Statements Included in Item 8:

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Report of Independent Registered Public Accounting Firm	45
Consolidated Balance Sheets	46
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Consolidated Statements of Cash Flows	48
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Reports on Internal Control Over Financial Reporting included in Item 9A:	
Management's Annual Report on Internal Control over Financial Reporting	81
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Schedules for each of the years in the three year period ended December 31, 2011 included in Item 15 (a):	
Valuation and Qualifying Accounts	91

Schedules not listed above have been omitted because they are not applicable or are not required, or the information required to be set forth therein is included in the financial statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of PMC-Sierra, Inc.

We have audited the accompanying consolidated balance sheets of PMC-Sierra, Inc. and subsidiaries (the "Company") as of December 31, 2011 and December 26, 2010 and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the years in the three year period ended December 31, 2011. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedules based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PMC-Sierra, Inc. and subsidiaries as of December 31, 2011 and December 26, 2010, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Vancouver, Canada
February 28, 2012

PMC-Sierra, Inc.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

	December 31, 2011	December 26, 2010
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 182,571	$ 293,355
Short-term investments	104,391	54,801
Accounts receivable, net of allowance for doubtful accounts of $1,952 (2010—$1,888)	59,213	69,263
Inventories, net	39,911	51,133
Prepaid expenses and other current assets	23,411	21,559
Income taxes receivable	8,027	4,554
Deferred tax assets	30,725	12,162
Total current assets	448,249	506,827
Investment securities	226,619	235,369
Investments and other assets	2,431	15,832
Prepaid expenses	16,901	22,987
Property and equipment, net	25,364	18,367
Goodwill	520,899	523,712
Intangible assets, net	158,482	202,265
Deferred tax assets	494	1,187
	$1,399,439	$1,526,546
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 38,340	$ 32,048
Accrued liabilities	66,139	78,170
Liability for unrecognized tax benefits	46,394	40,300
Deferred income taxes	2,450	2,823
Deferred income	16,024	18,231
2.25% senior convertible notes due October 15, 2025, net	65,122	—
Short-term loan	—	180,991
Total current liabilities	234,469	352,563
2.25% senior convertible notes due October 15, 2025, net	—	61,605
Liability for contingent consideration	—	28,194
Long-term obligations	1,284	8,940
Deferred income taxes	40,663	36,549
Liability for unrecognized tax benefits	17,323	17,908
PMC special shares convertible into 1,029 (2010—1,370) shares of common stock	1,228	1,716
Contingencies (Note 11. Commitments and Contingencies)		
Stockholders' equity:		
Common stock, par value $.001: 900,000 shares authorized; 230,233 shares issued and outstanding (2010—232,008)	230	252
Additional paid in capital	1,594,437	1,575,949
Accumulated other comprehensive (loss) income	(1,146)	2,072
Accumulated deficit	(489,049)	(559,202)
Total stockholders' equity	1,104,472	1,019,071
	$1,399,439	$1,526,546

See notes to the consolidated financial statements.

PMC-Sierra, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended		
	December 31, 2011	December 26, 2010	December 27, 2009
Net revenues	$654,304	$635,082	$496,139
Cost of revenues	211,630	204,518	165,231
Gross profit	442,674	430,564	330,908
Other costs and expenses:			
Research and development	227,106	187,467	149,184
Selling, general and administrative	118,601	104,117	84,942
Amortization of purchased intangible assets	44,182	29,932	39,344
Restructuring costs and other charges	—	403	888
Income from operations	52,785	108,645	56,550
Other income (expense):			
Revaluation of liability for contingent consideration	29,376	—	—
Gain (loss) on investment securities and other	845	3,978	(367)
Amortization of debt issue costs	(200)	(200)	(200)
Foreign exchange gain (loss)	344	(2,360)	(2,371)
Interest expense, net	(2,267)	(1,248)	(2,511)
Gain on investment in Wintegra, Inc.	—	4,509	—
Income before provision for income taxes	80,883	113,324	51,101
Recovery of (provision for) income taxes	3,816	(30,162)	(4,224)
Net income	$ 84,699	$ 83,162	$ 46,877
Net income per common share—basic	$ 0.36	$ 0.36	$ 0.21
Net income per common share—diluted	$ 0.36	$ 0.35	$ 0.20
Shares used in per share calculation—basic	233,210	231,427	226,225
Shares used in per share calculation—diluted	235,184	234,787	229,567

See notes to the consolidated financial statements.

PMC-Sierra, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended		
	December 31, 2011	December 26, 2010	December 27, 2009
Cash flows from operating activities:			
Net income	$ 84,699	$ 83,162	$ 46,877
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	72,544	48,147	56,577
Stock-based compensation	27,055	21,935	21,396
Unrealized foreign exchange (gain) loss, net	(43)	2,011	2,542
Net amortization of premiums/discounts and accrued interest on investments	4,520	5,484	(359)
Accrued interest on short-term loan	589	991	—
Gain on investment securities and other	(671)	(3,979)	538
Asset impairment	3,589	4,882	—
Gain on investment in Wintegra, Inc.	—	(4,509)	—
Revaluation of liability for contingent consideration	(29,376)	—	—
Changes in operating assets and liabilities:			
Accounts receivable	10,177	(1,088)	(10,554)
Inventories	2,210	(4,730)	2,723
Prepaid expenses and other current assets	2,824	8,587	1,132
Accounts payable and accrued liabilities	(9,447)	10,551	(2,531)
Deferred income taxes and income taxes payable	(4,044)	9,040	4,147
Accrued restructuring costs	(1,609)	(2,396)	(2,029)
Deferred income	(2,202)	5,239	1,298
Net cash provided by operating activities	160,815	183,327	121,757
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(1,669)	(234,035)	—
Purchases of property and equipment	(12,702)	(11,340)	(6,184)
Purchases of intangible assets	(6,116)	(5,678)	(1,590)
Redemption of short-term investments	—	4,574	186,443
Disposals of investment securities	159,523	222,261	59,298
Purchases of investment securities	(205,903)	(347,585)	(295,365)
Reclassification of short-term investments and long-term investment securities	—	90,266	—
Net cash used in investing activities	(66,867)	(281,537)	(57,398)
Cash flows from financing activities:			
Proceeds from short-term loan	—	220,000	—
Repayment of short-term loan	(180,991)	(40,000)	—
Proceeds from issuance of common stock	16,764	18,595	28,293
Repurchases of common stock	(39,999)	—	—
Net cash (used in) provided by financing activities	(204,226)	198,595	28,293
Effect of exchange rate changes on cash and cash equivalents	(506)	129	2,350
Net (decrease) increase in cash and cash equivalents	(110,784)	100,514	95,002
Cash and cash equivalents, beginning of year	293,355	192,841	97,839
Cash and cash equivalents, end of year	$ 182,571	$ 293,355	$ 192,841
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 1,538	$ 2,434	$ 1,538
Cash paid (refund received) for income taxes, net	379	16,686	(4,231)
Supplemental disclosures of non-cash investing and financing activities:			
Conversion of PMC-Sierra special shares into common stock	488	286	652

See notes to the consolidated financial statements.

PMC-Sierra, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Accumulated Other Comprehensive (Loss) Income (net of tax)	Accumulated Deficit	Total Stockholders' Equity
Balances at December 28, 2008	**221,335**	**$241**	**1,471,476**	**$(3,218)**	**$(689,241)**	**$ 779,258**
Net income	—	—	—	—	46,877	46,877
Other comprehensive income:						
Change in fair value of derivatives, net of tax of $1,647	—	—	—	3,766	—	3,766
Change in fair values of investment securities, net of tax of $264	—	—	—	616	—	616
Comprehensive income						51,259
Conversion of special shares into common shares	474	1	651	—	—	652
Issuance of common stock under stock benefit plans	5,846	5	27,951	—	—	27,956
Stock-based compensation expense	—	—	21,398	—	—	21,398
Balances at December 27, 2009	**227,655**	**247**	**1,521,476**	**1,164**	**(642,364)**	**$ 880,523**
Net income	—	—	—	—	83,162	83,162
Other comprehensive income:						
Change in fair value of derivatives, net of tax of $138	—	—	—	451	—	451
Change in fair values of investment securities, net of tax of $164	—	—	—	457	—	457
Comprehensive income						84,070
Conversion of special shares into common shares	200	1	285	—	—	286
Issuance of common stock under stock benefit plans	4,153	4	17,763	—	—	17,767
Stock-based compensation expense	—	—	23,018	—	—	23,018
Benefit of stock option related loss carry-forwards	—	—	13,407	—	—	13,407
Balances at December 26, 2010	**232,008**	**252**	**1,575,949**	**2,072**	**(559,202)**	**1,019,071**
Net income	—	—	—	—	84,699	84,699
Other comprehensive income:						
Change in fair value of derivatives, net of tax of $619	—	—	—	(2,688)	—	(2,688)
Change in fair values of investment securities, net of tax of $211	—	—	—	(530)	—	(530)
Comprehensive income						81,481
Conversion of special shares into common shares	341	—	488	—	—	488
Issuance of common stock under stock benefit plans	3,968	(16)	15,772	—	—	15,756
Stock-based compensation expense	—	—	27,055	—	—	27,055
Benefit of stock option related loss carry-forwards	—	—	620	—	—	620
Repurchases of common stock	(6,084)	(6)	(25,447)	—	(14,546)	(39,999)
Balances at December 31, 2011	**230,233**	**$230**	**$1,594,437**	**$(1,146)**	**$(489,049)**	**$1,104,472**

See notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business. PMC-Sierra, Inc (the "Company" or "PMC") is a semiconductor innovator transforming networks that connect, move and store digital content. Building on a track record of technology leadership, the Company is driving innovation across storage, optical and mobile networks. PMC's highly integrated solutions increase performance and enable next generation services to accelerate the network transformation.

Basis of presentation. The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") and United States Generally Accepted Accounting Principles ("GAAP"). The Company's 2011 fiscal year consisted of 53 weeks and fiscal years 2010, and 2009 consisted of 52 weeks and ended on the last Sunday in December. The Company's reporting currency is the U.S. dollar. The accompanying consolidated financial statements include the accounts of PMC-Sierra, Inc. and any of its subsidiaries. As at December 31, 2011 and December 26, 2010, all subsidiaries included in these consolidated financial statements were wholly owned by PMC. All inter-company accounts and transactions have been eliminated.

Estimates. The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used for, but not limited to, stock-based compensation, purchase accounting assumptions including those used to calculate the fair value of intangible assets and goodwill, the valuation of investments, accounting for doubtful accounts, inventory reserves, depreciation and amortization, asset impairments, sales returns, warranty costs, income taxes including uncertain tax positions, restructuring costs, assumptions used to measure the fair value of the debt component of our senior convertible notes, accounting for employee benefit plans, and contingencies (see Note 11. Commitments and Contingencies). Actual results could differ materially from these estimates.

Cash and cash equivalents, short-term investments and long-term investment securities. Cash equivalents are defined as highly liquid interest-earning instruments with maturities at the date of purchase of three months or less. Short-term investments are investments with original maturities greater than three months, but less than one year. Investments with maturities beyond one year are classified as long-term investment securities.

Management classifies investments as available-for-sale or held-to-maturity at the time of purchase and re-evaluates such designation as of each balance sheet date. Investments classified as held-to-maturity securities are stated at amortized cost with corresponding premiums or discounts amortized against interest income over the life of the investment. Marketable equity and debt securities not classified as held-to-maturity are classified as available-for-sale and reported at fair value. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on these investments, net of any related tax effect are included in equity as a separate component of stockholders' equity. For debt securities, if an impairment is considered other than temporary, the entire difference between the amortized cost and the fair value is recognized in earnings in the period this determination is made.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and economic conditions that may affect a customer's ability to pay.

Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market (estimated net realizable value). Cost is computed using standard cost, which approximates actual average cost. The Company provides inventory allowances on obsolete inventories and inventories in excess of twelve-month demand for each specific part.

Property and equipment, net. Property and equipment is stated at cost, net of write-downs for impairment, and accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from two to five years. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the lease term.

Goodwill. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. The Company performs a two-step process on an annual basis, or more frequently if necessary, to determine 1) whether the fair value of the relevant reporting unit exceeds the carrying value and 2) the amount of an impairment loss, if any. The Company completed this process in December 2011, 2010 and 2009, and determined that there were no impairments of goodwill.

Intangible assets, net. Intangible assets, net, consist of intangible assets acquired through business combinations, which are amortized over their estimated useful lives ranging from less than 1 year to ten years or have indefinite lives, and purchased technology assets that are amortized over their economic lives, which are normally three years.

Impairment of long-lived assets. The Company reviews its long-lived assets, for impairment annually or whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. To determine recoverability of these assets, other than for goodwill separately described above, the Company compares the carrying value of the assets to the estimated future undiscounted cash flows. Measurement of an impairment loss for long-lived assets held for use is based on the fair value of the asset determined through discounted cash flows. Long-lived assets classified as held for sale are reported at the lower of carrying value and fair value less estimated selling costs. For assets to be disposed of other than by sale, an impairment loss is recognized when the carrying value is not recoverable and exceeds the fair value of the asset.

During 2011, the Company recognized an asset impairment of $3.6 million related to certain purchased intellectual property that was no longer expected to be leveraged due to adjustments in research and development project initiatives. During 2010, the Company recognized an asset impairment of $4.9 million based on a determination made in the period that certain intangible assets were made redundant by assets acquired with our purchase of the Channel Storage business from Adaptec. Accordingly, the carrying values were written down to zero. These impairment charges were included in the Consolidated Statements of Operations in Research and development expense in the respective periods.

Foreign currency translation. For all foreign operations, the U.S. dollar is used as the functional currency. Monetary assets and liabilities in foreign currencies are translated into U.S. dollars using the exchange rate as of the balance sheet date. Revenues and expenses are translated at average rates of exchange during the year. Gains and losses from foreign currency transactions are reported separately as Foreign exchange gain (loss) under Other income (expense) on the Consolidated Statements of Operations.

Derivatives and Hedging Activities. Fluctuating foreign exchange rates may significantly impact PMC's net income (loss) and cash flows. The Company periodically hedges forecasted foreign currency transactions related to certain operating expenses. All derivatives are recorded in the balance sheet at fair value. For a derivative designated as a fair value hedge, changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in net income (loss). For a derivative designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in net income (loss) when the hedged item affects net (loss) income. Ineffective portions of changes in the fair value of cash flow hedges are recognized in net income (loss). If the derivative used in an economic hedging relationship is not designated in an accounting hedging relationship or if it becomes ineffective, changes in the fair value of the derivative are recognized in net income (loss). During the years ended December 31, 2011, December 26, 2010 and December 27, 2009, all hedges were designated as cash flow hedges.

Fair value of financial instruments. The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methodologies as prescribed under GAAP, for example the Company used the income approach to value certain investment securities. See *Note 7. Investment Securities*. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts. The fair value of the Company's cash equivalents, short-term investments, long-term investment securities, derivative instruments, debt component of its senior convertible notes, and employee post-retirement healthcare benefits are estimated using available market information and appropriate valuation. The fair value of investments in public companies is determined using quoted market prices for those securities. The fair value of investments in private entities is not readily determinable due to the illiquid market for these investments. The fair value of the deposits for wafer fabrication capacity is not readily determinable because the timing of the related future cash flows is not determinable and there is no market for the sale of these deposits (see Note 4. Fair Value Measurements).

The carrying values of accounts receivable and accounts payable approximate fair value because of their short term to maturities.

Our 2.25% senior convertible notes are not listed on any securities exchange or included in any automated quotation system, but have been traded over the counter on the Portal Market or under Rule 144 of the Securities Act of 1933. The exchange prices from these trades are not always available to us and may not be reliable. Trades under the Portal Market do not reflect all trades of the securities and the figures recorded are not independently verified. The Company has incorporated independent market quotes in estimating the fair value of the debt to be $67.9 million, or $99.38 per $100 face value as of December 31, 2011.

As of and for the year ended December 31, 2011, the use of derivative financial instruments was not material to the results of operations or the Company's financial position (see "Derivatives and Hedging Activities" in this Note).

Concentrations. The Company maintains its cash, cash equivalents, short-term investments, and long-term investment securities in investment grade financial instruments with high-quality financial institutions, thereby reducing credit risk concentrations.

At December 31, 2011, there was one distributor that accounted for 21% of accounts receivables, and two other customers that each accounted for 16% and 11% of accounts receivables, respectively. At December 26, 2010, there was one distributor and one other customer that accounted for 18% and 11% of accounts receivables, respectively. The Company believes that this concentration and the concentration of credit risk resulting from trade receivables owing from high-technology industry customers is substantially mitigated by the Company's credit evaluation process, relatively short collection periods and the geographical dispersion of the Company's sales. The Company generally does not require collateral security for outstanding amounts.

The Company relies on a limited number of suppliers for wafer fabrication capacity. In 2011 and 2010, there were three outside wafer foundries that supplied more than 95% of our semiconductor wafer requirements.

Revenue recognition. The Company recognizes product revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is reasonably assured. PMC generates revenues from sales made both directly to customers and through distributors.

The Company recognizes revenues on goods shipped directly to customers at the time of shipping, as that is when title passes and all revenue recognition criteria specified above are met.

The Company defers revenues and costs relating to sales to distributors if it grants more than limited rights of return or price credits, such that the level of returns and credits issuable at the time the goods are shipped cannot be reasonably estimated. In these cases, revenue is recognized upon the distributor remitting product resale quantity, price and customer shipment information, as well as confirming period end inventory on hand. The deferred income on shipments to distributors that will ultimately be recognized in the Company's consolidated statement of operations will be different than the amount shown on the consolidated balance sheet, due to actual price adjustments issued to the distributors when the product is sold to their customers. The Company does not believe that there is any significant exposure related to deferred income based on historical experience and business terms in place.

In cases where agreements with distributors grant only limited rights of return or price credits such that the level of returns or credits issuable at the time the goods are shipped can be reasonably estimated, the Company recognizes revenue at the time of shipment to the distributor.

The Company also maintains inventory or hubbing arrangements with certain of our customers. Pursuant to these arrangements, we deliver products to a customer or a designated third-party warehouse based upon the customers' projected needs, but do not recognize revenue unless and until the customer reports that it has removed our product from the warehouse and taken title and risk of loss.

In all cases, sales are recorded, net of estimated returns.

Research and development expenses. The Company expenses research and development ("R&D") costs as incurred. R&D costs include payroll and related costs, materials, services and design tools used in product development, depreciation, and other overhead costs including facilities and computer equipment costs. Intellectual property ("IP") purchased from third parties is capitalized and amortized over the expected useful life of the IP. For the years ended December 31, 2011, December 26, 2010, and December 27, 2009, research and development expenses were $227.1 million, $187.5 million, and $149.2 million, respectively.

Product warranties. The Company provides a limited warranty on most of its standard products and accrues for the expected cost at the time of shipment. The Company estimates its warranty costs based on historical failure rates and related repair or replacement costs.

Other Indemnifications. From time to time, on a limited basis, the Company indemnifies customers, as well as suppliers, contractors, lessors, and others with whom it has contracts, against combinations of loss, expense, or liability arising from various triggering events related to the sale and use of Company products, the use of their goods and services, the use of facilities, the state of assets that the Company sells and other matters covered by such contracts, normally up to a specified maximum amount. The Company evaluates estimated losses for such indemnifications under GAAP. The Company has no history of indemnification claims for such obligations and has not accrued any liabilities related to such indemnifications in the consolidated financial statements.

Stock-based compensation. The Company measures the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost of such award will be recognized over the period during which services are provided in exchange for the award, generally the vesting period.

All share-based payments to employees are recognized in the financial statements based upon their respective grant-date fair values.

During 2011, the Company recognized $27.1 million in stock-based compensation expense or $0.12 per share. No domestic tax benefits were attributed to the tax timing differences arising from stock-based compensation expense because a full valuation allowance was maintained for all domestic deferred tax assets.

See Note 5. Stock-Based Compensation.

Income taxes. Income taxes are reported under GAAP and, accordingly, deferred income taxes are recognized using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards. Valuation allowances are provided if, after considering available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within the consolidated statements of operations as provision for income taxes.

The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

See Note 15. Income Taxes.

Net income per common share. Basic net income per share is computed using the weighted average number of common shares outstanding during the period. The PMC-Sierra Ltd. Special Shares have been included in the calculation of basic net income per share. Diluted net income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options, shares issuable under our Employee Stock Purchase Plan and common shares issuable on conversion of the Company's senior convertible notes.

Segment reporting. The Company has one reportable segment—semiconductor solutions for communications network infrastructure (see Note 16. Segment Information).

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued amendments to disclosure requirements for common fair value measurement. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), provide common definitions of fair value and common fair value measurements and disclosure requirements between U.S. GAAP and International Financial Reporting Standards ("IFRS"). Consequently, the amendments change some fair value measurement principles and disclosure requirements. The Company will adopt this amendment effective the first quarter of fiscal 2012. The adoption of this amended accounting guidance is not expected to have a material impact on our consolidated financial position and results of operations.

In June 2011, the FASB issued amendments to disclosure requirements for the presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires the presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company will adopt this amendment effective the first quarter of fiscal 2012. The adoption of this amended accounting guidance is not expected to have a material impact on our consolidated financial position and results of operations.

In September 2011, the FASB issued Accounting Standards Update ("ASU") 2011-08, Testing Goodwill for Impairment. This ASU provides companies with the option to assess qualitative factors to determine whether it is

more likely than not that the fair value of a reporting unit is less than its carrying value. If this qualitative criteria is not met, then performing the two-step impairment test is unnecessary. However, if a company concludes otherwise, then it is required to perform the first step of the two-step quantitative goodwill impairment test. If the carrying value of a reporting unit exceeds its fair value, then a company is required to perform the second step of this test. This guidance is effective for goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this amended accounting guidance is not expected to have a material impact on our consolidated financial position and results of operations.

NOTE 2. BUSINESS COMBINATIONS

Acquisition of Wintegra, Inc.

On November 18, 2010, PMC completed its previously announced acquisition of Wintegra, Inc. ("Wintegra") a privately held Delaware corporation, pursuant to an amendment (the "Amendment") to the Agreement and Plan of Merger dated as of October 21, 2010 ("the Merger Agreement"). The Company's acquisition, pursuant to the Merger Agreement, was effected by merging a wholly owned subsidiary of the Company ("Merger Sub") into Wintegra, with Wintegra continuing on as the surviving corporation and as a direct wholly-owned subsidiary of PMC (the "Merger").

PMC purchased Wintegra to accelerate the Company's product offering in IP/Ethernet packet-based mobile backhaul equipment and because the acquisition fit strategically with the Company's overall efforts to accelerate the transition of existing communications equipment to converged, packet-centric solutions. Prior to November 18, 2010, the Company owned 2.6% of the outstanding shares of Wintegra, as a cost investment, with a carrying value of $2.0 million. The fair value immediately prior to the acquisition date was $6.5 million. Upon acquiring the remaining equity interests of Wintegra, the Company recorded a gain on the step-acquisition on this pre-existing investment of $4.5 million which was included in Other Income, net in the Consolidated Statement of Operations.

The fair value of the purchase price consideration as of the acquisition date was estimated, as follows:

(in thousands)	
Cash	$218,064
Contingent consideration (subsequently adjusted, see Note 11. Commitments and Contingencies)	28,194
Fair value of replacement equity awards attributable to pre-combination service	1,083
Total purchase price	$247,341

Certain key employees entered into Holdback Escrow Agreements, whereby a portion of cash consideration otherwise payable per the Merger Agreement was retained and would be distributed under certain conditions, including continued employment over a two-year period. This post-combination expense has been included in the Consolidated Balance Sheet as current prepaid expenses and is being amortized straight-line over the two-year period. Amortization for the year ended December 31, 2011 was $1.6 million. As at December 31, 2011, the unamortized balance of $1.2 million is included in the Consolidated Balance Sheet as Prepaid expenses and other current assets.

Former Wintegra equity holders could have been entitled to receive an additional earn-out payment, which ranged from $nil to $60 million, calculated on the basis of Wintegra's calendar year 2011 revenue above an agreed threshold as described in the Merger Agreement. The fair value of the earn-out was reflected in the purchase price as contingent consideration was determined using a probability weighted discounted net present value approach with a discount rate of 4.75%. See Note 11. Commitments and Contingencies.

Replacement stock options issued in connection with the acquisition were valued at $6.5 million. The fair values of stock options exchanged were determined using a Black-Scholes-Merton valuation model with the following assumptions: weighted average expected life of 5.06 years, weighted average risk-free interest rate of 1.5%, and a weighted average expected volatility of 54%. The fair values of unvested Wintegra stock options will be recorded as operating expenses on a straight-line basis over the remaining vesting periods, while the fair values of vested stock options are included in the purchase price. $1.1 million of this amount was attributed to pre-combination services and accordingly is recorded as purchase consideration, and $5.4 million will be recorded as post-combination compensation expense on a straight-line basis over the remaining vesting period.

On acquisition, the Company recorded a fair value adjustment related to the inventory acquired in the amount of $9.8 million, which was fully expensed through Cost of revenues by the end of the first quarter of 2011. The Company incurred $3.7 million in acquisition-related costs during 2010 and are included in selling, general and administrative expense. In addition, during 2011, the Company incurred $0.3 million in interest expense related to the short-term loan that the Company obtained to facilitate this acquisition, which is included in Other Income, net, in the Consolidated Statement of Operations. In 2010, such interest incurred by the Company was $1.1 million.

The total purchase price has been allocated to the fair value of assets and liabilities acquired, and the excess of purchase price over the aggregate fair values was recorded as goodwill.

The allocation of the purchase price was as follows:

Current assets (including cash acquired of $17.3 million)	$ 41,463
Other long-term assets	1,638
Intangible assets	104,000
Goodwill	121,032
Total assets	$268,133
Current liabilities	13,442
Long-term liabilities	7,350
Total liabilities	$ 20,792
Total purchase consideration	$247,341

Intangible assets acquired, and their respective estimated average remaining useful lives over which they are amortized on a straight-line basis, are:

(in thousands)	Estimated fair value	Estimated average remaining useful life
Existing technology	$ 66,300	4 years
Core technology	12,900	5 years
Customer relationships	16,500	5 years
In-process research and development	6,000	4-5 years
Trademarks	2,300	8 years
Total intangible assets	$104,000	

Goodwill

The Company's primary reasons for the Wintegra acquisition were to accelerate the Company's product offering in IP/Ethernet packet-based mobile backhaul equipment and to capitalize on the strategic fit between

Wintegra's business and the Company's overall efforts to accelerate the transition of existing communications equipment to converged, packet-centric solutions. The acquisition also enhanced the Company's engineering team through the addition of Wintegra's research and development resources. These factors were the basis for the recognition of goodwill. The goodwill is not expected to be deductible for tax purposes.

Purchased Intangible Assets

Existing and core technology represent completed technology that has passed technological feasibility and/or is currently offered for sale to customers. The Company used the income method to value existing and core technology by determining cash flow projections related to the identified projects. The assumptions included information on revenues from existing products and future expected trends for each technology, with an estimated useful life of four to five years. Management applied a discount rate of 16% to value the existing and core technology assets, which took into consideration market rates of return on debt and equity capital and the risk associated with achieving forecasted revenues related to these assets.

Customer relationships represent the fair value of future projected revenue that will be derived from the sale of products to existing customers of the acquired company. The Company used the same method to determine the fair value of this intangible asset as core technology assets and utilized a discount rate of 24%.

Trademarks represent the value of the revenues associated with the WinPath registered trademark, which the Company will continue to use on products for which it has established revenue streams. The Company used the same method to determine the fair value of trademarks and utilized a discount rate of 18%.

In-Process Research and Development

The fair value of acquired in-process research and development ("IPR&D") was determined using the income approach. Under this approach, the expected future cash flows from each project under development are estimated and discounted to their net present values using a risk-adjusted rate of return. Significant factors considered in the calculation of the rate of return are the weighted average cost of capital, the return on assets, as well as risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. Future cash flows for each project were estimated based on forecasted revenue and costs, taking into account the expected product life cycles, market penetration and growth rates.

The following table summarizes the valuations of IPR&D at December 31, 2011.

Development Project	Weighted Average Estimated Percent Complete	Average Estimated Time to Complete (in months)	Estimated Cost to Complete (in thousands)	Risk Adjusted Discount Rate	IPR&D (in thousands)
WinPath 3—SPO	100%	nil	$—	24%	$ 170
UFE4	80%	6	648	24%	1,200
WinPath 3—Rev B	98%	1	20	24%	4,600
			$668		$5,970

Acquisition of Channel Storage Business

On June 8, 2010, the Company completed the acquisition of the Channel Storage Business from Adaptec, Inc. ("Adaptec") pursuant to the terms of the Asset Purchase Agreement dated May 8, 2010 and Amendment to Asset Purchase Agreement dated June 8, 2010 between PMC and Adaptec (together the "Purchase Agreement"). Under the terms of the Purchase Agreement, PMC purchased the Channel Storage business for $34.3 million in

cash. The Channel Storage business includes Adaptec's redundant array of independent disks ("RAID") storage product line, a well-established global value added reseller customer base, board logistics capabilities, and leading SSD cache performance solutions.

The total purchase price has been allocated to the fair values of assets acquired and liabilities assumed as follows:

(in thousands)	
Financial assets	$ 8,855
Inventory and other	6,214
Property and equipment	892
Intangible assets (see below)	21,300
Goodwill	1,828
Financial liabilities	(4,839)
Net assets acquired	$34,250

Intangible assets acquired, and their respective estimated remaining useful lives over which each they are amortized on a straight-line basis, are:

(in thousands)	Estimated fair value	Estimated average remaining useful life
Technology and patents	$10,100	3 to 9 years
Customer/Distributor relationships	7,500	2 to 6 years
Trademarks and other	3,700	6 years
Total intangible assets acquired	$21,300	

During 2010, the Company incurred $0.2 million and $3.2 million in acquisition-related costs which were expensed and recognized as cost of revenues and selling, general and administrative, respectively.

Acquisition of RAD3 Communications, Inc.

During the fourth quarter of fiscal 2011, the Company completed the acquisition of all of the outstanding equity of RAD3 Communications, Inc., a privately-held company located in Alberta, Canada. This acquisition provides PMC with leading-edge Forward Error Correction and Digital Signal Processing technologies, and a very experienced team, accelerating PMC's ability to offer innovative solutions for storage, optical and mobile networks. This acquisition was accounted for under the purchase method of accounting. The financial impact of this acquisition was not material to the Company.

NOTE 3. DERIVATIVE INSTRUMENTS

The Company generates revenues in U.S. dollars but incurs a portion of its operating expenses in various foreign currencies, primarily the Canadian dollar. To minimize the short-term impact of foreign currency fluctuations on the Company's operating expenses, the Company uses forward currency contracts.

Forward currency contracts that are used to hedge exposures to variability in forecasted foreign currency cash flows are designated as cash flow hedges. The maturities of these instruments are less than twelve months. For these derivatives, the gain or loss from the effective portion of the hedge is initially reported as a component of other comprehensive income in stockholders' equity and subsequently reclassified to earnings in the same period in which the hedged transaction affects earnings. As the hedge transactions are incurred, the effective portion of the hedge is recognized into operating income. The gain or loss from the ineffective portion of the hedge is recognized as interest income or expense immediately.

At December 31, 2011, the Company had 185 currency forward contracts outstanding that qualified and were designated as cash flow hedges. At December 26, 2010, there were 60 such currency forward contracts outstanding. The U.S. dollar notional amount of these contracts was $73.1 million and $48.4 million at December 31, 2011 and December 26, 2010, respectively, and the contracts had a fair value of $1.8 million loss and a fair value of $1.4 million gain in December 31, 2011 and December 26, 2010, respectively. No portion of the hedging instrument's gain or loss was excluded from the assessment of effectiveness. The ineffective portions of hedges had no significant impact on earnings, nor are they expected to over the next twelve months.

NOTE 4. FAIR VALUE MEASUREMENTS

ASC Topic 820 specifies a hierarchy of valuation techniques which requires an entity to maximize the use of observable inputs that may be used to measure fair value:

Level 1—Quoted prices in active markets are available for identical assets and liabilities. The Company's Level 1 assets include cash equivalents, short-term investments, and long-term investment securities, which are generally acquired or sold at par value and are actively traded.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 liabilities include forward currency contracts whose value is determined using a pricing model with inputs that are observable in the market or corroborated with observable market data. Level 2 observable inputs were used in estimating interest rates used to determine the fair value (on a non-recurring basis) of the debt component the Company's senior convertible notes (see Note 1. Summary of Significant Accounting Policies and Note 10. Senior Convertible Notes).

Level 3—Pricing inputs include significant inputs that are generally not observable in the marketplace. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. At each balance sheet date, the Company performs an analysis of all applicable instruments and would include in Level 3 all of those whose fair value is based on significant unobservable inputs. The Company's Level 3 assets include investments in money market funds classified as Cash and cash equivalents as at December 26, 2010 (see Note 7. Investment Securities). Level 3 inputs are used on a recurring basis to measure the fair value of the liability for contingent consideration (see Note 11. Commitments and Contingencies). Level 3 inputs are used on a non-recurring basis to measure the fair value of non-financial assets, including intangible assets (see Note 1. Summary of Significant Accounting policies).

Assets/Liabilities Measured and Recorded at Fair Value on a Recurring Basis

Financial assets measured on a recurring basis as of December 31, 2011 and December 26, 2010, are summarized below:

	Fair value, December 31, 2011		
(in thousands)	**Level 1**	**Level 2**	**Level 3**
Assets:			
Corporate bonds and notes[1]	$254,522	$—	$—
Money market funds[1]	54,588	—	—
United States ("US") treasury and government agency notes[1]	62,350	—	—
Foreign government and agency notes[1]	12,389	—	—
US state and municipal securities[1]	1,749	—	—
Total assets	$385,598	$—	$—

(1) Included in cash and cash equivalents, short-term investments, and long-term investment securities (see Note 7. Investment Securities).

(in thousands)	Fair value, December 26, 2010 Level 1	Level 2	Level 3
Assets:			
Corporate bonds and notes[1]	$239,503	$ —	$ —
Money market funds[1]	103,517	—	22,444
United States ("US") treasury and government agency notes[1]	124,667	—	—
Foreign government and agency notes[1]	23,739	—	—
US state and municipal securities[1]	17,530	—	—
Forward currency contracts[2]	—	1,311	—
Total assets	$508,956	$1,311	$22,444

(1) Included in Cash and cash equivalents, Short-term investments, and Long-term investment securities (see Note 7. Investment Securities).

(2) Included in Prepaid expenses and other current assets.

Financial liabilities measured on a recurring basis are summarized below:

(in thousands)	Fair value, December 31, 2011 Level 2	Level 3
Current liabilities:		
Forward currency contracts[1]	$1,780	$—
Liability for contingent consideration*	—	—
	$1,780	$—

(1) Included in Accrued liabilities.

(in thousands)	Fair value, December 26, 2010 Level 3
Long-term liabilities:	
Liability for contingent consideration*	$28,194

* See Note 11. Commitments and Contingencies

The tables below present reconciliations for all assets and liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for 2010 and 2011.

(In thousands)	Fair Value Measured and Recorded Using Significant Unobservable Inputs (Level 3) Money Market Funds	Liability for contingent consideration	Total Gains (Losses)
Balance as of December 27, 2010	$ 22,444	$ 28,194	
Partial distribution from the Reserve Funds	(22,444)	—	$ —
Fair value adjustment of liability for contingent consideration (See Note 11. Commitments and Contingencies)	—	(28,194)	$28,194
Balance as of December 31, 2011	$ —	$ —	

(In thousands)	Fair Value Measured and Recorded Using Significant Unobservable Inputs (Level 3)		Total Gains (Losses)
	Money Market Funds	Liability for contingent consideration	
Balance as of December 28, 2009	$23,242	$ —	
Partial distribution from the Reserve Funds	(4,574)	—	$ —
Recovery of impairment on investment securities	3,776	—	$3,776
Fair value of liability for contingent consideration recorded on acquisition (See Note 11. Commitments and Contingencies)	—	28,194	$ —
Balance as of December 26, 2010	$22,444	$28,194	

For all periods presented, realized gains and losses were included in Other income (expense) in the Consolidated Statements of Operations. For further details see Note 7. Investment Securities for discussion of the Money Market Funds, and see Note 11. Commitments and Contingencies.

Assets/Liabilities Measured and Recorded at Fair Value on a Non-Recurring Basis

Our non-financial assets, such as intangible assets are recorded at fair value only if an impairment charge is recognized. The following table presents the non-financial assets that were remeasured and recorded at fair value on a non-recurring basis during 2010 and 2011, and the losses recorded during 2010 and 2011 on those assets:

(In thousands)	Net Carrying Value As of December 31, 2011	Fair Value Measured and Recorded Using			Total Losses for Year Ended December 31, 2011
		Level 1	Level 2	Level 3	
Intangible assets	$—	$—	$—	$—	$(3,589)
Total losses for assets held as of December 31, 2011					$(3,589)
Total losses for recorded non-recurring measurement					$(3,589)

(In thousands)	Net Carrying Value As of December 26, 2010	Fair Value Measured and Recorded Using			Total Losses for Year Ended December 26, 2010
		Level 1	Level 2	Level 3	
Intangible assets	$—	$—	$—	$—	$(4,882)
Total losses for assets held as of December 26, 2010					$(4,882)
Total losses for recorded non-recurring measurement					$(4,882)

The losses recorded during 2011 and 2010, were included in Research and Development expenses in the Consolidated Statements of Operations. See Note 1. Summary of Significant Accounting Policies for details on the asset impairments.

The following liabilities have been measured at fair value on a non-recurring basis, as follows:

(in thousands)	Fair value, December 31, 2011 Level 2
Current liabilities:	
2.25% senior convertible notes due October 15, 2025, net (see Note 10. Senior Convertible Notes)	$67,913

(in thousands)	Fair value, December 26, 2010 Level 2
Long-term liabilities:	
2.25% senior convertible notes due October 15, 2025, net (see Note 10. Senior Convertible Notes)	$74,791

NOTE 5. STOCK-BASED COMPENSATION

At December 31, 2011, the Company has two stock-based compensation programs, which are described below. The Company's stock-based awards under these plans are classified as equity. The Company did not capitalize any stock-based compensation cost and recorded compensation expense as follows:

Stock-based compensation expense:

	Year Ended		
(in thousands)	December 31, 2011	December 26, 2010	December 27, 2009
Cost of revenues	$ 945	$ 827	$ 779
Research and development	11,648	8,968	8,665
Selling, general and administrative	14,462	12,140	11,952
Total	$27,055	$21,935	$21,396

The Company received cash of $16.8 million, $18.6 million and $28.3 million from the exercise of stock-based awards during 2011, 2010 and 2009, respectively. The total intrinsic value of stock awards exercised during 2011 was $12.4 million.

As of December 31, 2011, there was $22.4 million of total unrecognized compensation cost related to unvested stock options granted under the Company's stock option plans, which is expected to be recognized over a period of 2.7 years. As of December 31, 2011, there was $15.7 million of total unrecognized compensation cost related to unvested Restricted Stock Units ("RSUs") awarded under the Company's stock option plans, which is expected to be recognized over a period of 2.6 years.

The Company's estimates of expected volatilities are based on a weighted historical and market-based implied volatility. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the stock option valuation model and represents the period of time that granted options are expected to be outstanding. The risk-free rate for periods within the contractual life of the stock option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair values of the Company's stock option and Employee Stock Purchase Plan, awards were estimated using the following weighted average assumptions:

Stock Options:

	December 31, 2011	December 26, 2010	December 27, 2009
Expected life (years)	4.5	4.4	4.4
Expected volatility	43%	53%	66%
Risk-free interest rate	1.9%	2.1%	1.8%

Employee Share Purchase Plan:

	December 31, 2011	December 26, 2010	December 27, 2009
Expected life (years)	0.5	0.6	1.3
Expected volatility	44%	44%	59%
Risk-free interest rate	0.1%	0.2%	0.7%

Stock Option Plans

The Company issues its common stock under the provisions of the 2008 Equity Plan (the "2008 Plan"). Stock option awards are granted with an exercise price equal to the closing market price of the Company's common stock at the grant date. The options generally expire within 10 years and vest over four years.

The 2008 Plan was approved by stockholders at the 2008 Annual Meeting. The 2008 Plan became effective on January 1, 2009 (the "Effective Date"). It is a successor to the 1994 Incentive Stock Plan (the "1994 Plan") and the 2001 Stock Option Plan (the "2001 Plan"). Up to 30,000,000 shares of our common stock have been initially reserved for issuance under the 2008 Plan. The implementation of the 2008 Plan did not affect any options or restricted stock units outstanding under the 1994 Plan or the 2001 Plan on the Effective Date. To the extent that any of those options or RSUs subsequently expire or are forfeited, respectively, prior to issuance of the related shares that number of shares of common stock will be added to the share reserve available for issuance under the 2008 Plan, up to an additional 15,000,000 shares. No additional shares may be issued under the 1994 Plan or the 2001 Plan. In 2010, the Company assumed the stock option plans and all outstanding stock options of Wintegra subject to a conversion formula, and were part of the merger consideration in that business combination.

Activity under the option plans during the year ended December 31, 2011 was as follows:

	Number of options	Weighted average exercise price per share	Weighted average remaining contractual term (years)	Aggregate intrinsic value at December 31, 2011
Outstanding, December 26, 2010	28,120,086	$ 8.40		
Granted	5,605,991	$ 7.15		
Exercised	(1,269,918)	$ 5.33		
Forfeited	(3,325,761)	$11.19		
Outstanding, December 31, 2011	29,130,398	$ 7.97	6.21	$4,856,119
Vested & expected to vest, December 31, 2011	27,926,603	$ 8.00	6.09	$4,844,228
Exercisable, December 31, 2011	18,974,355	$ 8.37	4.93	$3,341,571

No adjustment has been recorded for fully vested options that expired during the year ended December 31, 2011. A reversal of $2.7 million was recorded for pre-vesting forfeitures.

The following table summarizes information on options outstanding and exercisable at December 31, 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price per Share	Options Exercisable	Weighted Average Exercise Price per Share
$0.05—$5.48	5,364,071	6.58	$ 4.60	3,801,195	$ 4.63
$5.56—$7.07	4,197,500	4.58	6.22	3,632,372	6.24
$7.22—$7.85	6,526,950	8.40	7.35	1,532,923	7.60
$7.87—$9.06	8,313,765	6.65	8.46	5,312,621	8.30
$9.07—$21.50	4,728,112	3.43	13.33	4,695,244	13.36
$0.05—$21.50	29,130,398	6.21	$ 7.97	18,974,355	$ 8.37

The weighted-average estimated fair values of each employee stock option granted during 2011, 2010, and 2009, were $2.55, $3.67, and $2.79, respectively.

Restricted Stock Units

On February 1, 2007, the Company amended its stock award plans to allow for the issuance of RSUs to employees and directors. The first grant of RSUs occurred on May 25, 2007. The grants vest over varying terms, to a maximum of four years from the date of grant.

A summary of RSU activity during the year ended December 31, 2011 is as follows:

	Restricted Stock Units	Weighted Average Remaining Contractual Term	Aggregate intrinsic value at December 31, 2011
Unvested shares at December 26, 2010	2,648,756	—	—
Awarded	2,215,774	—	—
Released	(895,918)	—	—
Forfeited	(288,929)	—	—
End of Period	3,679,683	1.56	$20,275,053
Restricted Stock Units vested and expected to vest December 31, 2011	3,079,304	1.50	$16,966,969

The weighted-average estimated fair values of each RSU awarded during 2011, 2010, and 2009, were $7.09, $7.94, and $7.06, respectively.

Employee Stock Purchase Plan

In 1991, the Company adopted an Employee Stock Purchase Plan (the "1991 Plan"). The 1991 Plan allows eligible participants to purchase shares of the Company's common stock through payroll deductions at a purchase price of 85% of the lower of the fair market value of the Company's stock on the close of the first trading day or last trading day of the six-month purchase period. Under the 1991 Plan, the number of shares authorized to be available for issuance under the plan are increased automatically on January 1 of each year until the expiration of the plan. The increase will be limited to the lesser of (i) 1% of the outstanding shares on

January 1 of each year, (ii) 2,000,000 shares (after adjusting for stock dividends), or (iii) an amount to be determined by the Board of Directors. The 2011 Employee Stock Purchase Plan ("2011 Plan") was approved by stockholders at the 2010 Annual Meeting. The 2011 Plan became effective on February 11, 2011 and replaced the 1991 Plan. 12,000,000 shares of our common stock have been reserved for issuance under the 2011 Plan.

During 2011, 1,925,336 shares were issued under the 1991 Plan and the 2011 Plan at a weighted-average price of $5.12 per share. As of December 31, 2011, 10,827,657 shares were available for future issuance under the 2011 Plan (2010—8,798,638 available for issuance under the 1991 Plan).

The weighted-average estimated fair values of Employee Stock Purchase Plan awards during years 2011, 2010, and 2009, were $1.88, $2.34, and $1.88 per share, respectively.

NOTE 6. SUPPLEMENTAL FINANCIAL INFORMATION

a. Cash and cash equivalents

Cash and cash equivalents included $0.2 million and $0.7 million at December 31, 2011 and December 26, 2010, respectively deposited with a bank as collateral for letters of credit issued as security for leased facilities, and $1.3 million deposited with banks as collateral for hedging transactions.

b. Inventories

Inventories (net of reserves of $8.3 million and $8.6 million at December 31, 2011 and December 26, 2010, respectively) were as follows:

(in thousands)	December 31, 2011	December 26, 2010
Work-in-progress	$20,367	$19,046
Finished goods	19,544	32,087
	$39,911	$51,133

The Company decreased inventory reserves by $1.9 million, $0.8 million and $2.6 million in 2011, 2010 and 2009, respectively for inventory that was scrapped during the year.

c. Property and equipment

The components of property and equipment are as follows:

December 31, 2011 (in thousands)	Gross	Accumulated Amortization	Net
Software	$ 53,678	$ (50,508)	$ 3,170
Machinery and equipment	133,554	(115,078)	18,476
Leasehold improvements	13,772	(10,435)	3,337
Furniture and fixtures	8,981	(8,600)	381
Total	$209,985	$(184,621)	$25,364

December 26, 2010 (in thousands)	Gross	Accumulated Amortization	Net
Software	$ 58,496	$ (55,016)	$ 3,480
Machinery and equipment	141,534	(128,774)	12,760
Leasehold improvements	16,272	(14,171)	2,101
Furniture and fixtures	13,818	(13,792)	26
Total	$230,120	$(211,753)	$18,367

d. Intangible assets

The components of acquired intangible assets are as follows:

December 31, 2011 (in thousands)	Gross	Accumulated Amortization	Net	Estimated Life
Core technology	$151,861	$(102,874)	$ 48,987	5-8 years
Customer relationships	90,600	(53,221)	37,379	4-10 years
Existing technology	115,200	(63,815)	51,385	3-5 years
Trademarks	5,600	(1,182)	4,418	6-8 years
Trademarks	3,600	—	3,600	Indefinite
Developed technology assets	52,484	(45,741)	6,743	3 years
Backlog	400	(400)	—	< 1 year
In-process research and development	200	(30)	170	5 years
In-process research and development	5,800	—	5,800	Indefinite
Total	$425,745	$(267,263)	$158,482	

December 26, 2010 (in thousands)	Gross	Accumulated Amortization	Net	Estimated life
Core technology	$149,800	$ (85,139)	$ 64,661	5-9 years
Customer relationships	90,600	(43,814)	46,786	2-10 years
Existing technology	115,200	(47,643)	67,557	3-7 years
Trademarks	5,600	(345)	5,255	6-8 years
Trademarks	3,600	—	3,600	Indefinite
Developed technology assets	46,080	(37,674)	8,406	3 years
Backlog	400	(400)	—	< 1 year
In-process research and development	6,000	—	6,000	4-5 years
Total	$417,280	$(215,015)	$202,265	

Estimated future amortization expense for intangible assets (in thousands) is as follows:

2012	$ 48,031
2013	47,311
2014	32,318
2015	20,182
2016	4,331
Thereafter	2,711
	$154,884

e. Accrued liabilities.

The components of accrued liabilities are as follows:

(in thousands)	December 31, 2011	December 26, 2010
Accrued compensation and benefits	$27,386	$41,239
Other accrued liabilities	38,753	36,931
Total	$66,139	$78,170

f. Product warranties

The following table summarizes the activity related to the product warranty liability during fiscal 2011, 2010 and 2009:

(in thousands)	Year Ended December 31, 2011	December 26, 2010	December 27, 2009
Balance, beginning of the year	$ 5,457	$ 6,097	$ 6,031
Accrual for new warranties issued	1,863	1,698	1,642
Reduction for payments and product replacements	(290)	(1,244)	(204)
Adjustments related to changes in estimate of warranty accrual	(1,615)	(1,094)	(1,372)
Balance, end of the year	$ 5,415	$ 5,457	$ 6,097

g. Restructuring and Other Costs

The activity related to excess facility accruals under the Company's restructuring plans during 2011, 2010 and 2009 were as follows:

Excess facility costs

(in thousands)	2007	2006	2005	2001	Total
Balance at December 28, 2008	$ 830	$ 178	$ 3,048	$1,875	$ 5,931
Reversals and adjustments	28	15	—	88	131
New charges	25	117	700	—	842
Cash payments	(357)	(216)	(1,404)	(933)	(2,910)
Balance at December 27, 2009	526	94	2,344	1,030	3,994
Reversals and adjustments	(14)	(19)	(2)	5	(30)
New charges	10	(14)	252	184	432
Cash payments	(291)	(61)	(1,451)	(989)	(2,792)
Balance at December 26, 2010	231	—	1,143	230	1,604
Cash payments	(231)	—	(1,143)	(230)	(1,604)
Balance at December 31, 2011	$ —	$ —	$ —	$ —	$ —

There was no restructuring related severance cost in 2011, 2010 or 2009.

2007

In the first quarter of 2007, the Company initiated a cost-reduction plan that involved staff reductions of 175 employees at various sites and the closure of design centers in Saskatoon, Saskatchewan and Winnipeg, Manitoba. The Company also vacated excess office space at its Santa Clara facility. PMC continued to lower costs in the fourth quarter of 2007 by reducing headcount by 18 employees primarily at the Burnaby facility.

The Company has completed this plan and incurred $10.6 million in termination and relocation costs, $3.0 million for excess facilities and contract termination costs, and $2.5 million in asset impairment charges. The Company has made payments of $12.8 million in connection with this plan. At December 31, 2011, the Company paid all the remaining excess facilities commitments under this plan.

2006

In 2006, the Company closed its Ottawa development site and reduced operations at its Portland development site to reduce operating expenses resulting in the elimination of approximately 45 positions and a reduction in office space occupied. The charges relating to these actions were $3.0 million in one-time termination benefit and relocation costs, $2.3 million for excess facilities, and $0.3 million for other related costs.

Changes in the accrual summarized in the table above have been as expected and immaterial.

2005

In 2005, the Company initiated various restructuring activities aimed at streamlining production and reducing operating expenses. During the year, we terminated 113 employees across all business functions, and reduced facilities occupied. As a result, we recorded charges of $9.3 million for termination benefits, $5.3 million for excess facilities and $0.9 million for the write-down of equipment and software assets whose value was impaired as a result of these plans.

The increase in the accruals in the years presented above was due to not realizing the originally expected amounts of sublease income. At December 31, 2011, the Company paid all the remaining excess facilities commitments under this Plan.

2001

In 2001, the Company implemented restructuring plans aimed at focusing development efforts on key projects and reducing operating costs in response to the severe and prolonged economic downturn in the semiconductor industry. These plans included the termination of 564 employees, the consolidation of excess facilities and curtailment of certain research and development activities.

The Company initially recorded restructuring charges totaling $195.2 million, $16.2 million related to asset write-downs. The majority of the restructuring charge related to lease commitments on its office space in Santa Clara, CA, which was the Company's headquarters until January, 2011. At December 31, 2011, the Company paid all the remaining excess facilities commitments under this Plan.

The accruals relating to these restructuring plans are recognized as Accrued liabilities in the Consolidated Balance Sheets.

h. Interest expense, net

The components of interest expense, net are as follows:

	Year Ended		
(in thousands)	**December 31, 2011**	**December 26, 2010**	**December 27, 2009**
Interest income	$ 4,228	$ 3,538	$ 2,026
Interest expense on debt	(6,495)	(4,786)	(4,537)
	$(2,267)	$(1,248)	$(2,511)

NOTE 7. INVESTMENT SECURITIES

At December 31, 2011, the Company had investments in securities of $385.6 million (December 26, 2010- $531.4 million) comprised of money market funds, United States Treasury and Government Agency notes, Federal Deposit Insurance Corporation ("FDIC") insured corporate notes, United States State and Municipal Securities, foreign government and agency notes, and corporate bonds and notes.

The Company's available for sale investments, by investment type, as classified on the consolidated balance sheets consist of the following as at December 31, 2011 and December 26, 2010:

	December 31, 2011			
(in thousands)	Amortized Cost	Gross Unrealized Gains*	Gross Unrealized Losses*	Fair Value
Cash equivalents:				
Money market funds	$ 54,588	$ —	$ —	$ 54,588
Total cash equivalents	54,588	—	—	54,588
Short-term investments:				
Corporate bonds and notes	85,127	2,449	(34)	87,542
US treasury and government agency notes	10,009	203	—	10,212
Foreign government and agency notes	6,540	97	—	6,637
Total short-term investments	101,676	2,749	(34)	104,391
Long-term investment securities:				
Corporate bonds and notes	166,741	688	(449)	166,980
US treasury and government agency notes	52,054	123	(39)	52,138
Foreign government and agency notes	5,713	39	—	5,752
US states and municipal securities	1,720	29	—	1,749
Total long-term investment securities	226,228	879	(488)	226,619
Total	$382,492	$3,628	$(522)	$385,598

* Gross unrealized gains include accrued interest on investments of $2.4 million. The remainder of the gross unrealized gains and losses are included in the interim Condensed Consolidated Balance Sheet as Other comprehensive income (loss).

(in thousands)	December 26, 2010			
	Amortized Cost	Gross Unrealized Gains*	Gross Unrealized Losses *	Fair Value
Cash equivalents:				
Corporate bonds and notes	$ 30,321	$ —	$ —	$ 30,321
US treasury and government agency notes	75,346	—	—	75,346
Money market funds	125,940	21	—	125,961
Foreign government and agency notes	802	—	—	802
US states and municipal securities	8,800	—	—	8,800
Total cash equivalents	241,209	21	—	241,230
Short-term investments:				
Corporate bonds and notes	36,139	2,483	(1)	38,621
US treasury and government agency notes	1,193	261	—	1,454
Foreign government and agency notes	7,435	279	—	7,714
US states and municipal securities	6,940	72	—	7,012
Total short-term investments	51,707	3,095	(1)	54,801
Long-term investment securities:				
Corporate bonds and notes	169,590	1,338	(367)	170,561
US treasury and government agency notes	47,877	188	(198)	47,867
Foreign government and agency notes	15,065	158	—	15,223
US states and municipal securities	1,720	—	(2)	1,718
Total long-term investment securities	234,252	1,684	(567)	235,369
Total	$527,168	$4,800	$(568)	$531,400

* Gross unrealized gains include accrued interest on investments of $2.7 million. The remainder of the gross unrealized gains and losses are included in the consolidated balance sheet as other comprehensive income.

In relation to the unrealized losses summarized in the tables above, as of December 31, 2011 and December 26, 2010, the fair value of certain of the Company's available-for-sale securities was less than their cost basis. Management reviewed various factors in determining whether to recognize an impairment charge related to these unrealized losses, including the current financial and credit market environment, the financial condition and near-term prospects of the issuer of the investment security, the magnitude of the unrealized loss compared to the cost of the investment, length of time the investment has been in a loss position and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery of market value. As of December 31, 2011, the Company determined that the unrealized losses are temporary in nature and recorded them as a component of Accumulated other comprehensive income (loss).

The investments in the Reserve Funds, classified as cash and cash equivalents on the Consolidated Balance Sheet, were recorded at a fair value of nil at December 31, 2011 (2010—$22.4 million) and relate to shares of the Reserve International Liquidity Fund, Ltd. (the "International Fund") and the Reserve Primary Fund (the "Primary Fund", together the "Reserve Funds"). The Reserve Funds were AAA-rated money market funds which announced redemption delays and suspended trading in September 2008, during the severe disruption in financial markets. The Company assessed the fair value of its money market funds, including by consideration of Level 2 and Level 3 inputs (see Note 4. Fair Value Measurements) for the Reserve Funds and their underlying securities. Based on this assessment, the Company recorded an impairment of the Reserve Funds of $11.8 million during the third quarter of 2008, incorporating the Reserve Funds' valuation at zero for debt securities of Lehman Brothers held, and a net asset value of $0.97 per share as communicated by the Primary Fund. In 2008, the Company reclassified its investment in shares of the Reserve Funds from Level 1 to Level 3 of the fair value hierarchy due to the inherent subjectivity and significant judgment related to the fair value of the shares of the Reserve Funds

and their underlying securities. Accordingly, the Company changed the valuation method from a market approach to an income approach. In addition, in 2008, due to the status of the Reserve Funds, the Company reclassified a portion of these shares from cash and cash equivalents to short-term investments and long-term investment securities, based on the maturity dates of the underlying securities in the Reserve Funds.

As at December 26, 2010, all of the underlying Lehman Brothers investments held in the Reserve Funds had matured or were sold, and remaining securities were held only in overnight notes.

During 2010, the Primary Fund entered into liquidation proceedings which were supervised by the U.S. Securities and Exchange Commission, and the Company received partial distributions of its holdings. During the fourth quarter of 2010, the U.S. District Court for the Southern District of New York entered into final judgment accepting a proposed settlement agreement with respect to the International Fund. Shortly after the Company's 2010 year end, that judgment became final. As a result, the Company recognized a recovery of impairment on investments of $3.8 million in the 2010 consolidated statement of operations, based on the partial distributions received from these settlements. The courts set aside certain amounts of cash held by the Reserve Funds for legal and administrative costs, and if the cash is not all consumed, the Company could potentially receive a further distribution.

In 2011, we received $22.6 million from the International Fund and its liquidation was completed. The Primary Fund continues to be in the process of liquidation. We continue to hold shares of the Reserve Primary Fund with an original cost of $0.6 million, which are valued at $nil on the Consolidated Balance Sheet.

NOTE 8. LINES OF CREDIT

At December 31, 2011, the Company had cancelled its revolving line of credit with a bank related to a terminated lease. At December 26, 2010, the Company had available a revolving line of credit with a bank under which the Company was able to borrow up to $0.7 million with interest at the bank's alternate base rate (annual rate of 3.75%) as long as the Company maintained eligible investments with the bank in an amount equal to its drawings.

NOTE 9. SHORT-TERM LOAN

On November 18, 2010, the Company, PMC-Sierra US Inc., a Delaware wholly owned subsidiary of the Company (the "Borrower"), and Bank of America, N.A., as the Lender, entered into a Credit Agreement (the "Credit Agreement"). The Credit Agreement provides the Borrower with a term loan of $220 million (the "Credit Facility"), which was borrowed on November 18, 2010. The Credit Facility was used to finance, in part, the acquisition (the "Acquisition") of Wintegra by the Company. During 2010, the Company repaid principal of $40 million. As a result, the balance as at December 26, 2010 was $181.0 million, including accrued interest.

The interest rate set forth in the Credit Agreement for the loan made under the Credit Facility was the base rate (the higher of the prime rate announced by the Lender or the federal funds effective rate plus 0.50%), plus 1.50%.

The loan had a maturity date of January 17, 2011 but was fully repaid as of January 10, 2011. The Company funded the repayment of this loan by liquidating $46.3 million long-term and $44 million short-term investment securities. Accordingly, the Company reclassified these short-term and long-term investment securities to cash and cash equivalents as of Decembers 26, 2010.

NOTE 10. SENIOR CONVERTIBLE NOTES

2.25% Senior Convertible Notes

On October 26, 2005, the Company issued $225 million aggregate principal amount of 2.25% senior convertible notes due 2025 (the "Notes").

The Notes rank equal in right of payment with the Company's other unsecured senior indebtedness and mature on October 15, 2025 unless earlier redeemed by the Company at its option, or converted or put to the Company at the option of the holders. Interest is payable semi-annually in arrears on April 15 and October 15 of each year, commencing on April 15, 2006. The Company may redeem all or a portion of the Notes at par on and after October 20, 2012. The holders may require that the Company to repurchase all or a portion of the Notes on October 15 of each of 2012, 2015 and 2020.

Holders may convert the Notes into the right to receive the conversion value (i) when the Company's stock price exceeds 120% of the approximately $8.80 per share initial conversion price for a specified period, (ii) in certain change in control transactions, and (iii) when the trading price of the Notes does not exceed a minimum price level. For each $1,000 principal amount of Notes, the conversion value represents the amount equal to 113.6687 shares multiplied by the per share price of the Company's common stock at the time of conversion. If the conversion value exceeds $1,000 per $1,000 in principal of Notes, the Company will pay $1,000 in cash and may pay the amount exceeding $1,000 in cash, stock or a combination of cash and stock, at the Company's election.

The Company entered into a Registration Rights Agreement with the holders of the Notes, under which the Company is required to keep the shelf registration statement effective until the earlier of (i) the sale pursuant to the shelf registration statement of all of the Notes and/or shares of common stock issuable upon conversion of the Notes, and (ii) the expiration of the holding period applicable to such securities held by non-affiliates under Rule 144 under the Securities Act, or any successor provision, subject to certain permitted exceptions.

The Company will be required to pay liquidated damages, subject to some limitations, to the holders of the Notes if the Company fails to comply with its obligations to register the Notes and the common stock issuable upon conversion of the Notes or the registration statement does not become effective within the specified time periods. In no event will liquidated damages accrue after the second anniversary of the date of issuance of the Notes or at a rate exceeding 0.50% of the issue price of the Notes. The Company will have no other liabilities or monetary damages with respect to any registration default. If the holder has converted some or all of its Notes into common stock, the holder will not be entitled to receive any liquidated damages with respect to such common stock or the principal amount of the Notes converted.

As at December 31, 2011, the carrying amount of the equity component was $35.2 million (December 26, 2010- $35.2 million), and the carrying amount of the debt component was $65.1 million (December 26, 2010—$61.6 million), which represents the principal amount of $68.3 million (December 26, 2010—$68.3 million) net of the unamortized discount of $3.2 million (December 26, 2010—$6.7 million). The balance of deferred debt issue costs as at December 31, 2011 is $0.2 million (December 26, 2010—$0.4 million). Since the holders may require the Company to repurchase the Notes on October 15, 2012, the Company has reclassified the debt to short-term liabilities in the fourth quarter of 2011.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases its facilities under operating lease agreements, which expire at various dates through December 31, 2018.

Rent expense including operating costs for 2011, 2010 and 2009 was $12.9 million, $11.9 million, and $11.3 million, respectively. Excluded from rent expense for 2011, 2010 and 2009 was additional rent and operating costs of $0.9 million, $2.7 million and $2.5 million, respectively, related to excess facilities, which were accrued as part of the restructuring programs.

Minimum future rental payments under operating leases are as follows:

(in thousands)	$
2012	8,612
2013	8,464
2014	7,866
2015	7,030
2016	5,941
Thereafter	13,974
Total minimum future rental payments under operating leases	$51,887

Supply Agreements

The Company has existing supply agreements with UMC and TSMC. The terms include but are not limited to, supply terms without minimum unit volume requirements for PMC, indemnification and warranty provisions, quality assurances and termination conditions.

Contingencies

In the normal course of business, the Company receives and makes inquiries with regard to possible patent infringements. Where deemed advisable, the Company may seek or extend licenses or negotiate settlements. Outcomes of such negotiations may not be determinable at any point in time; however, management does not believe that such licenses or settlements will, individually or in the aggregate, have a material effect on the Company's financial position, results of operations or cash flows.

Contingent consideration

The terms of our November 2010 acquisition of Wintegra, provide for potential additional earn-out based purchase consideration ranging from nil to $60 million, calculated on the basis of Wintegra's 2011 revenue as described in the Agreement and Plan of Merger dated as of October 21, 2010. At acquisition, the Company recorded a liability for contingent purchase consideration of $28.2 million as part of the acquisition of Wintegra, which reflected the estimated fair value of the potential earn-out payment, calculated by applying the income approach. During the three months ended October 2, 2011, the Company determined that Wintegra's 2011 revenues would be below earn-out levels. Accordingly, the Company recognized a $29.4 million gain on revaluation of this liability in the Consolidated Statement of Operations. No further adjustments were recorded to the year end.

NOTE 12. SPECIAL SHARES

At December 31, 2011 and December 26, 2010, the Company maintained a reserve of 1,029,000 and 1,370,000 shares, respectively, of PMC common stock to be issued to holders of PMC-Sierra, Ltd. ("LTD") special shares.

The special shares of LTD, the Company's principal Canadian subsidiary, are redeemable or exchangeable for PMC common stock. Special shares do not vote on matters presented to the Company's stockholders, but in all other respects represent the economic and functional equivalent of PMC common stock for which they can be redeemed or exchanged at the option of the holders. The special shares have class voting rights with respect to transactions that affect the rights of the special shares as a class and for certain extraordinary corporate transactions involving LTD. If LTD files for bankruptcy, is liquidated or dissolved, the special shares receive as a preference the number of shares of PMC common stock issuable on conversion plus a nominal amount per share plus unpaid dividends, or at the holder's option convert into LTD ordinary shares, which are the

functional equivalent of voting common stock. If the Company files for bankruptcy, is liquidated, or dissolved, special shares of LTD receive the cash equivalent of the value of PMC common stock into which the special shares could be converted, plus unpaid dividends, or at the holder's option convert into LTD ordinary shares. If the Company materially breaches its obligations to special shareholders of LTD (primarily to permit conversion of special shares into PMC common stock), the special shareholders may convert their shares into LTD ordinary shares.

These special shares of LTD are classified outside of stockholders' equity until such shares are exchanged for PMC common stock. Upon exchange, amounts will be transferred from the LTD special shares account to the Company's common stock and additional paid-in capital on the consolidated balance sheet.

NOTE 13. STOCKHOLDERS' EQUITY

Authorized Capital Stock of PMC

At December 31, 2011 and December 26, 2010, the Company had an authorized capital of 905,000,000 shares, 900,000,000 of which are designated "Common Stock", $0.001 par value, and 5,000,000 of which are designated "Preferred Stock", $0.001 par value.

Stockholders' Rights Plan

The Company adopted a stockholders' rights plan in 2001, pursuant to which the Company declared a dividend of one share purchase right for each outstanding share of common stock. If certain events occur, including if an investor tenders for or acquires more than 15% of the Company's outstanding common stock, stockholders (other than the acquirer) may exercise their rights and receive $650 worth of our common stock in exchange for $325 per right, or the Company may, at the Company's option, issue one share of common stock in exchange for each right, or the Company may redeem the rights for $0.001 per right. This stockholders' rights plan expired, pursuant to its terms, on May 25, 2011.

Stock Repurchase Program

On May 5, 2011, the Board of Directors of the Company authorized a share repurchase plan for fiscal year 2011. Under this authorization, the Company may repurchase common stock to offset dilution from employee equity grants and stock purchases, at an aggregate cost not exceeding $40 million. As of December 31, 2011, the Company completed its 2011 repurchase program and repurchased 6,083,263 shares for approximately $40 million in cash. The repurchased shares were retired immediately. Accordingly, the repurchased shares were recorded as a reduction of common stock, additional paid-in capital and accumulated deficit.

NOTE 14. EMPLOYEE BENEFIT PLANS

Post-Retirement Health Care Benefits

Our unfunded post retirement benefit plan, which was assumed in connection with the acquisition of the Storage Semiconductor Business, provides retiree medical benefits to eligible United States employees who meet certain age and service requirements upon retirement from the Company. These benefits are provided from the date of retirement until the employee qualifies for Medicare coverage. The amount of the retiree medical benefit obligation assumed by the Company was $1.1 million at the time of the acquisition.

At December 31, 2011 and December 26, 2010, the accumulated postretirement benefit obligation was $1.3 million and $1.5 million, respectively, with no unrecognized gain/loss or unrecognized prior service cost in both periods. The net period benefit expense was $1.4 million during 2011. The net period benefit expense in 2010 was $0.4 million. No distributions were made from the plan during the period. The Company includes accrued benefit costs for its post-retirement program in Accrued liabilities on the Company's Consolidated Balance Sheet.

The health care accumulated postretirement benefit obligations were determined at December 31, 2011 using a discount rate of 4% and a current year health care trend of 9% decreasing to an ultimate trend rate of 4.7% in 2027. The health care accumulated postretirement benefit obligations were determined at December 26, 2010, using a discount rate of 5.2% and a current year health care trend of 9% decreasing to an ultimate trend rate of 4.7% in 2026.

Employee Retirement Savings Plans

The Company sponsors a 401(k) retirement plan for its employees in the United States and similar plans for its employees in Canada and other countries. Employees can contribute a percentage of their annual compensation to the plans, limited to maximum annual amounts set by local taxation authorities. The Company contributed $3.8 million, $3.1 million, and $2.5 million, and, to the plans in fiscal years 2011, 2010, and 2009, respectively.

Israeli Severance Plans

The Company's has two types of severance agreements with employees in Israel, which are under Israeli labour laws. Under the first agreement, the Company's liability for severance pay is calculated pursuant to Israeli severance pay law. Severance is based on the most recent salary of the employee multiplied by the number of years of employment. The severance pay liability of the Company to these employees reflects the undiscounted amount of the liability. The liability is partly covered by insurance policies and by regular deposits to severance pay funds. The Company records changes in the severance liability in the Consolidated Statements of Operations, net of gains and losses related to amounts in the severance pay funds.

Under the second type of severance agreement, the Company's agreements with employees in Israel which are under Section 14 of the Severance Pay Law, 1963. Under this agreement, the Company satisfies its full obligation by contributing one month of the employee's salary for each year of service into a fund managed by a third party. Neither the obligation, nor the amounts deposited on behalf of the employee for such obligation are recorded on the Consolidated Balance Sheet, as the Company is legally released from the obligation to the employees once the amounts have been deposited.

Severance expense for 2011, 2010, and 2009 were $2.0 million, $1.2 million, and $0.9 million, respectively. The amount of the liability, net of the amounts funded under the first type of agreement noted above are included within Accrued liabilities on the Consolidated Balance Sheet in the amounts of $0.5 million, and $0.3 million for the years ended December 31, 2011 and December 26, 2010, respectively. As at December 31, 2011, the amount of the net liability is comprised of $5.0 million for statutory severance pay liability, less $4.5 million of cumulative funding by the Company. As at December 26, 2010, the amount of the net liability is comprised of $5.2 million severance pay liability, less $4.9 million in amounts funded.

NOTE 15. INCOME TAXES

For financial reporting purposes, income before income taxes includes the following components:

	Year Ended		
(in thousands)	**December 31, 2011**	**December 26, 2010**	**December 27, 2009**
Domestic	$29,637	$ 33,001	$ 924,259
Foreign	51,246	80,323	(873,158)
	$80,883	$113,324	$ 51,101

The (recovery of) provision for income taxes consists of the following components:

(in thousands)	Year Ended December 31, 2011	December 26, 2010	December 27, 2009
Current:			
Domestic	$ (3,907)	$ 19,256	$ 640
Foreign	13,390	28,616	1,750
	9,483	47,872	2,390
Deferred:			
Domestic	4,114	5,822	3,791
Foreign	(17,413)	(23,532)	(1,957)
	(13,299)	(17,710)	1,834
(Recovery of) provision for income taxes	$ (3,816)	$ 30,162	$ 4,224

Reconciliation between the Company's effective tax rate and the U.S. Federal statutory rate is as follows:

(in thousands)	December 31, 2011	December 26, 2010	December 27, 2009
Income before provision for income taxes	$ 80,883	$113,324	$ 51,101
Federal statutory tax rate	35%	35%	35%
Income taxes at U.S. Federal statutory rate	28,309	39,663	17,885
Tax effect on intercompany transactions	22,025	14,846	78,431
Change in liability for unrecognized tax benefits	6,119	10,184	14,093
Non-deductible intangible asset amortization	3,819	8,205	10,982
Non-deductible stock-based compensation	5,234	3,969	4,396
Non-deductible items and other	(6,521)	(394)	(1,596)
Utilization of stock option related loss carry-forwards recorded in equity	3,223	13,407	—
Adjustment of prior years' taxes and tax credits	(27,236)	(5,095)	340
Investment tax credits, net	(18,455)	(14,416)	(9,934)
Foreign and other rate differential	(25,301)	(31,114)	(15,654)
Change in valuation allowance	4,968	(9,093)	(94,719)
(Recovery of) provision for income taxes	$ (3,816)	$ 30,162	$ 4,224

On a world-wide consolidated basis, the Company recorded a recovery of income taxes of $3.8 million, a provision for income taxes of $30.2 million and a provision for income taxes of $4.2 million for 2011, 2010, and 2009, respectively. The effective tax rate was negative 5% for 2011 and positive 27% and 8% for 2010 and 2009, respectively.

The difference between our effective tax rates and the 35% US federal statutory rate in each of 2011, 2010, and 2009, resulted primarily from foreign earnings eligible for tax rates lower than the federal statutory rate due to economic incentives subject to certain criteria granted by foreign jurisdictions and extending to approximately 2020, adjustments for prior years taxes and tax credits, the effect of intercompany transactions, investment tax credits earned, changes in valuation allowance, changes in accruals related to the unrecognized tax benefit liabilities, permanent differences arising from stock-based compensation, non-deductible, intangible asset amortization and utilization of stock option related loss carryforwards recorded in equity.

The 2011 recovery of income taxes of $3.8 million consisted of a recovery for $11.3 million related to adjustments to prior period estimates and a foreign subsidiary's tax audit settlement, $11.8 million decrease in tax expense from operations, net of investment tax credits , $3.2 million tax expense from stock option related

loss carryforwards recognized in equity, $6.2 million tax expense relating to unrecognized tax benefits (including associated interest), $3.9 million increase in deferred tax expense arising from amortization of acquisition related intangibles, $6 million tax expense on an inter-company sale of certain assets, as discussed below.

The 2010 provision for income taxes of $30.2 million consisted of $13.4 million tax expense from stock option related loss carryforwards recognized in equity, $10.2 million tax expense relating to unrecognized tax benefits (including associated interest), $5.4 million related to adjustments to prior period estimates, $5.3 million increase in deferred income tax expense arising from amortization of acquisition-related intangibles, $3.2 million deferred tax recovery associated with an unrealized foreign exchange loss arising from foreign currency translation of a foreign subsidiary, $3.2 million tax expense on an inter-company sale of certain assets, as discussed below, $1.1 million tax expense from the inter-company share transfer of certain foreign subsidiaries, and $5.2 million decrease in tax expense from operations, net of investment tax credits.

The 2009 provision for income taxes was $4.2 million, which consisted of a $9.9 million deferred tax recovery associated with an unrealized foreign exchange loss arising from foreign currency translation of a foreign subsidiary, $4.9 million tax expense on an inter-company sale of certain assets, as discussed below, $4.5 million tax expense relating to unrecognized tax benefits (including associated interest), $3.8 million increase in deferred income tax related to past acquisitions, and a $0.9 million increase in tax expense from operations, net of investment tax credits.

The consolidated financial statements for the 2011, 2010 and 2009 include the tax effects associated with the sale of certain assets between our wholly-owned subsidiaries. GAAP requires the tax expense associated with gains on such inter-company transactions to be recognized over the estimated life of the related assets. Accordingly prepaid tax expenses were recorded in the years ended December 31, 2011, December 26, 2010 and December 27, 2009. The balance in long-term prepaid expenses as at December 31, 2011 and December 26, 2010, to be recognized in future years was $16.9 million and $23 million, respectively. The tax expense during 2011, 2010 and 2009 resulting from these transactions was $6 million, $3.2 million, $4.9 million, respectively.

Significant components of the Company's deferred tax assets and liabilities are as follows:

(in thousands)	December 31, 2011	December 26, 2010
Deferred tax assets:		
Net operating loss carryforwards	104,522	106,466
Capital loss	1,670	4,031
Credit carryforwards	69,038	40,721
Reserves and accrued expenses	27,221	24,398
Intangible assets	2,740	2,701
Depreciation and amortization	1,150	3,081
Restructuring and other charges	1,680	2,396
State tax loss carryforwards	9,513	8,695
Deferred income	4,101	2,796
Other	—	332
Unrealized loss on investment	29	—
Total deferred tax assets	221,664	195,617
Valuation allowance	(185,776)	(180,808)
Acquired intangible assets and goodwill	(43,039)	(38,925)
Capital gain, sale/write down of assets	—	(1,031)
Depreciation	(4,269)	—
Capitalized technology & other	(474)	(75)
Unrealized gain on investments	—	(801)
Total net deferred taxes	$ (11,894)	$ (26,023)

At December 31, 2011, the Company has approximately $313 million of federal net operating losses, which will expire through 2027. The Company also has approximately $240 million of state tax loss carryforwards, which expire through 2029. The utilization of a portion of these net operating losses may be subject to annual limitations under federal and state income tax legislation. Substantially, all of the Company's net operating losses relate to the Company's domestic operations and no tax benefit has been recorded for these losses. Included in the credit carry-forwards are $55 million of federal research and development credits which expire through 2025, $5 million of federal alternative minimum tax credits which carryforward indefinitely, $12 million of state research and development credits which do not expire, and $4 million foreign tax credits which expire through 2018.

The Company intends to indefinitely reinvest undistributed earnings of foreign subsidiaries. Accordingly, the Company has not recorded a deferred tax liability on these earnings, after taking into account available net operating losses and credits, of approximately $9 million related to federal and state income taxes.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows (in millions):

(in millions)	December 31, 2011	December 26, 2010	December 27, 2009
Gross unrecognized benefit at beginning of the year	$49.9	$40.5	$22.9
Increase in tax position for prior years	—	1.5	3.0
Increase in tax position for current year	4.3	5.9	9.6
Lapse in statute limitation	(1.3)	—	(0.1)
Effect on foreign currency gain (loss) on translation	(0.6)	2.0	5.1
Ending balance before interest accrual	$52.3	$49.9	$40.5

The total amount of gross unrecognized tax benefits that, if recognized, would affect the effective tax rate was $52.3 million at December 31, 2011 (2010—$49.9 million, 2009—$40.5 million). The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. During 2011, the Company had accrued interest and penalties related to unrecognized tax benefits of $3 million (2010—$2.8 million, 2009—$1.6 million).

The Company and its subsidiaries file income tax returns in the U.S. and in various states, local and foreign jurisdictions. The 2006 through 2011 tax years generally remain subject to examination by federal and most state tax authorities. In significant foreign jurisdictions, the 2007 through 2011 tax years generally remain subject to examination by their respective tax authorities. The Company does not reasonably estimate that the unrecognized tax benefit will change significantly within the next 12 months.

NOTE 16. SEGMENT INFORMATION

The Company derives its net revenues from the following operating segments: Communication Products, Fiber-to-the-Home Products, Enterprise Storage Products, Microprocessor Products, Broadband Wireless Products, Channel Storage Products, and Wireless Infrastructure and Networking Products.

All operating segments noted above have been aggregated into one reportable segment because they have similar long-term economic characteristics, products, production processes, types or classes of customers and methods use to distribute their products. Accordingly, the Company has one reportable segment—semiconductor solutions for communications network infrastructure.

Enterprise-wide information is provided below. Geographic revenue information is based on the location of the customer invoiced. Long-lived assets include property and equipment, goodwill and other intangible assets and other long-term assets. Geographic information about long-lived assets is based on the physical location of the assets.

(in thousands)	Year Ended December 31, 2011	December 26, 2010	December 27, 2009
Net revenues			
China	$236,186	$217,148	$204,774
Asia, other	74,832	84,230	80,037
Japan	85,999	95,427	69,611
United States	114,224	96,207	63,490
Taiwan	83,274	90,303	62,275
Europe and Middle East	51,115	45,482	12,853
Other foreign	8,674	6,285	3,099
Total	$654,304	$635,082	$496,139

(in thousands)	December 31, 2011	December 26, 2010	December 27, 2009
Long-lived assets			
Canada	$ 12,685	$ 12,608	$ 10,147
United States	7,450	7,014	3,931
Israel	3,885	5,422	3,796
Other	3,775	2,656	3,628
Total	$ 27,795	$ 27,700	$ 21,502

During 2011, the Company had two end customers whose purchases represented 10% or more of net revenues. In 2010 and 2009, the Company had one end customer whose purchases represented 10% or more of net revenues. In 2011, those two end customers had purchases that represented 20% and 10% of net revenues. In each of 2010 and 2009, the Company had one end customer whose purchases represented 20% and 19%, respectively.

NOTE 17. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share:

(in thousands, except per share amounts)	Year Ended December 31, 2011	December 26, 2010	December 27, 2009
Numerator:			
Net income:	$ 84,699	$ 83,162	$ 46,877
Denominator:			
Basic weighted average common shares outstanding[1]	233,210	231,427	226,225
Dilutive effect of employee stock options and awards	1,974	3,360	3,342
Diluted weighted average common shares outstanding	235,184	234,787	229,567
Basic net income per share	$ 0.36	$ 0.36	$ 0.21
Diluted net income per share	$ 0.36	$ 0.35	$ 0.20

(1) PMC-Sierra,Ltd. Special Shares are included in the calculation of basic weighted average common shares outstanding.

NOTE 18. COMPREHENSIVE INCOME

The components of comprehensive income, net of tax, are as follows:

(in thousands)	Year Ended December 31, 2011	December 26, 2010	December 27, 2009
Net income	$84,699	$83,162	$46,877
Other comprehensive (loss) income:			
Change in net unrealized gains on investments, net of tax of $211 in 2011 (2010—$164; 2009—$264)	(530)	457	616
Change in fair value of derivatives, net of tax of $619 in 2011 (2010—$138; 2009—$1,647)	(2,688)	451	3,766
Total	$81,481	$84,070	$51,259

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

In evaluating the effectiveness of our internal control over financial reporting as of December 31, 2011, we considered the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. 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 may not be prevented or detected on a timely basis by internal control over financial reporting. 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.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our chief executive officer and our chief financial officer evaluated our "disclosure controls and procedures" as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 as amended (the "Exchange Act") as of December 31, 2011. They concluded that as of the evaluation date, our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d -15(f) of the Securities Exchange Act of 1934 as amended).

Our management assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework. Based on our assessment and those criteria, management concludes that we maintained effective control, at the reasonable assurance level, over financial reporting as of December 31, 2011.

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.

Deloitte & Touche LLP, an independent registered public accounting firm that audited the financial statements included in this Annual Report, has audited the effectiveness of Company's internal control over financial reporting and has issued a report on its internal control over financial reporting, which is included in this annual report.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of PMC-Sierra, Inc.

We have audited the internal control over financial reporting of PMC-Sierra, Inc. and subsidiaries (the "Company") 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. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2011 of the Company and our report dated February 28, 2012 expressed an unqualified opinion on those financial statements and financial statement schedules.

/S/ DELOITTE & TOUCHE LLP

Vancouver, Canada
February 28, 2012

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information concerning our directors and executive officers required by this Item is incorporated by reference from the information set forth in the sections entitled "Election of Directors", "Code of Business Conduct and Ethics", "Executive Officers", and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for the 2012 Annual Stockholder Meeting.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference from the information set forth in the sections entitled "Director Compensation," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in our Proxy Statement for the 2012 Annual Stockholder Meeting.

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

The information concerning security ownership of certain beneficial owners that is required by this Item is incorporated by reference from the information set forth in the section entitled "Common Stock Ownership of Certain Beneficial Owners and Management" in our Proxy Statement for the 2012 Annual Stockholder Meeting.

Equity Compensation Plan Information

The following table provides information as of December 31, 2011 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	Number of Securities to be issued upon exercise of outstanding options and vesting of outstanding RSU's	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders[1]	30,483,890	$ 7.75	26,964,439[2]
Equity compensation plans not approved by security holders[3]	2,326,191	$10.67	—
Balance at December 31, 2011	32,810,081	$ 7.98	26,964,439[4]

(1) Consists of the 1994 Incentive Stock Plan (the "1994 Plan"), the 2008 Equity Plan (the "2008 Plan") and the 2011 Employee Stock Purchase Plan ("2011 Plan").

(2) Includes 16,136,782 shares available for issuance in the 2008 Plan and 10,827,657 shares available for issuance in the 2011 Plan.

(3) Consists of the 2001 Stock Option Plan (the "2001 Plan"), which was created to replace a number of stock option plans assumed by us in connection with mergers and acquisitions we completed prior to 2001. The number of options that may be granted under the 2001 Plan equals (i) the number of shares reserved under the assumed stock option plans that were not subject to outstanding or exercised options plus (ii) the number of options that were outstanding at the time the plans were assumed but that have subsequently been cancelled plus (iii) 10 million shares that were added to the plan in 2003. This also includes Passave Inc. 2003 Israeli Option Plan (the "2003 Plan") and the Passave, Inc. 2005 U.S. Stock Incentive Plan (the "2005 Plan"), which were assumed through the Passave acquisition, as well as, the Wintegra, Inc. 2006 Equity Incentive Plan (the "2006 Plan") which was assumed through the Wintegra acquisition.

(4) On April 30, 2008 the security holders of PMC Sierra approved the 2008 Equity Plan (the "2008 Plan"). The effective date for the 2008 Plan was January 1, 2009. The 2008 Plan replaced the 1994 Plan and the 2001 Plan, and no further awards shall be made under either the 1994 Plan or the 2001 Plan. On May 6, 2010 the security holders of PMC Sierra approved the 2011 Employee Stock Purchase Plan (the "2011 Plan"). The effective date for the 2011 Plan was February 11, 2011. The 2011 Plan replaced the 1991 Employee Stock Purchase (the "1991 Plan"), and no further awards shall be made under the 1991 Plan.

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

The information required by this Item is incorporated by reference from the information set forth in the section entitled "Executive Compensation Change of Control and Severance Agreements" in our Proxy Statement for the 2012 Annual Stockholder Meeting.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item is incorporated by reference from our Proxy Statement for the 2012 Annual Stockholder Meeting.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) 1. Consolidated Financial Statements

The financial statements (including the notes thereto) listed in the accompanying index to financial statements and financial statement schedules are filed within this Annual Report on Form 10-K in Item 8 of Part II.

2. Financial Statement Schedules

Financial Statement Schedules required by this item are listed on page [96] of this Annual Report on Form 10-K.

3. Exhibits

The exhibits listed under Item 15(b) are filed as part of this Annual Report on Form 10-K.

(b) Exhibits pursuant to Item 601 of Regulation S-K.

Incorporated by Reference

Exhibit Number	Description	Form	Date	Number	Filed herewith
2.1	Agreement and Plan of Merger by and among PMC-Sierra, Inc., Rosewood Acquisition Corp., Wintegra Inc. and Concord (k.t.) Venture Management Ltd., as Stockholders' Agent, dated as of October 21, 2010.	8-K	10/26/10	2.1	
2.2	Amendment, dated as of November 18, 2010, to the Agreement and Plan of Merger by and among PMC-Sierra, Inc., Rosewood Acquisition Corp., Wintegra, Inc. and Concord (k.t.) Venture Management Ltd., as Stockholders' Agent, dated as of October 21, 2010.	8-K	11/19/10	2.2	
3.1	Amended and Restated Certificate of Incorporation of PMC-Sierra, Inc., as amended on May 5, 2011				X
3.2	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Registrant	S-3	11/08/2001	3.2	
3.3	Amended and Restated Bylaws of the Registrant	8-K	5/9/2011	3.2	
4.1	Specimen of Common Stock Certificate of the Registrant	S-3	08/27/1997	4.4	
4.2	Exchange Agreement dated September 2, 1994 by and between the Registrant and PMC-Sierra, Ltd.	8-K	02/19/1994	2.1	
4.3	Amendment to Exchange Agreement effective August 9, 1995	8-K	09/06/1995	2.1	
4.4	Terms of PMC-Sierra, Ltd. Special Shares	S-3	09/19/1995	4.3	
4.6	Purchase and Sale Agreement dated October 28, 2005, between PMC-Sierra, Inc. and Avago Technologies Pte. Limited	8-K	11/03/2005	2.1	
4.7	Indenture Agreement dated October 26, 2005, between the Company and U.S. Bank National Association, as trustee	8-K	10/26/2005	4.1	
4.8	Agreement and Plan of Merger dated April 4, 2006, between PMC-Sierra, Inc. and Passave Inc.	8-K	04/04/2006	2.1	
10.1^	1991 Employee Stock Purchase Plan, as amended	10-K	03/01/2007	10.1	
10.2^	1994 Incentive Stock Plan, as amended	10-K	03/01/2007	10.2	
10.3^	2001 Stock Option Plan, as amended	10-K	03/01/2007	10.3	
10.4^	2008 Equity Plan	S-8	08/12/08	4.2	
10.5^	Form of Indemnification Agreement between the Registrant and its directors and officers, as amended and restated	10-K	03/28/03	10.4	
10.6^	Form of Change of Control Agreement by and between the Registrant and the executive officers	10-K	2/24/10	10.6	
10.7	Net Building Lease dated May 15, 1996 by and between PMC-Sierra, Ltd. and Pilot Pacific Developments Inc.	10-K	04/14/1997	99.A4	

Exhibit Number	Description	Form	Date	Number	Filed herewith
10.8	Building Lease Agreements between WHTS Freedom Circle Partners, LLC and the Registrant	10-Q	08/08/2000	10.36	
10.9	First Amendment to Building Lease Agreements between WHTS Freedom Circle Partners, LLC and the Registrant	10-Q	11/14/2001	10.46	
10.10	Building Lease Agreement between Kanata Research Park Corporation and PMC-Sierra, Ltd.	10-K	04/02/2001	10.44	
10.11	Building Lease Agreement between Transwestern—Robinson I, LLC and PMC-Sierra US, Inc.	10-K	04/02/2001	10.45	
10.12*	Forecast and Option Agreement by and among the Registrant, PMC-Sierra, Ltd., and Taiwan Semiconductor Manufacturing Corporation.	10-K	03/20/2000	10.31	
10.13	Sixth Amendment to Building Lease Agreement between PMC-Sierra, Ltd. and Production Court Property Holdings Inc.	10-Q	11/10/2003	10.1	
10.14	Amendment for Purchase and Sale of Real Property between WHTS Freedom Circle Partners II, L.L.C. and PMC-Sierra, Inc.	10-Q	11/10/2003	10.2	
10.15	Amendment for Purchase and Sale of Real Property between PMC-Sierra, Inc. and WB Mission Towers, L.L.C.	10-Q	11/10/2003	10.3	
10.16	Director Compensation—Equity Acceleration upon Change of Control	10-Q	8/6/2009	10.1	
10.18	United States District Court of Northern District of California San Jose Division—In re PMC-Sierra, Inc. Derivative Litigation—Master File No. C-06-05330-RS—Stipulation of Settlement	8-K	1/26/2010	99.2	
10.19	Office Lease	10-Q	11/4/2010	10.1	
10.20	Credit Agreement dated as of November 18, 2010 by and among PMC-Sierra US, Inc. a Delaware corporation, PMC-Sierra, Inc., a Delaware corporation, and Bank of America, N.A.	8-K	11/19/10	10.1	
10.21	2011 Employee Stock Purchase Plan.	Def 14A	3/10/10	—	
10.22	Amended and Restated Executive Employment Agreement				X
11.1	Calculation of earnings per share[1]				X
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges				X
21.1	Subsidiaries of the Registrant				X
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accountants.				X
24.1	Power of Attorney[2]				X

Exhibit Number	Description	Form	Date	Number	Filed herewith
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).				X
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).				X
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer) (furnished, not filed).				X
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer) (furnished, not filed).				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

* Confidential portions of this exhibit have been omitted and filed separately with the Commission.

^ Indicates management compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(c) of Form 10K.

(1) Refer to Note 17 of the consolidated financial statements included in Item 8 of Part II of this Annual Report.

(2) Refer to Signature page of this Annual Report.

SIGNATURE

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.

PMC-SIERRA, INC.
(Registrant)

Date: February 28, 2012

/s/ Michael W. Zellner

Michael W. Zellner
Vice President, (duly authorized officer)
Chief Financial Officer and Principal Accounting Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gregory S. Lang and Michael W. Zellner, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual 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/ Gregory S. Lang Gregory S. Lang	President, Chief Executive Officer (Principal Executive Officer) and Director	February 28, 2012
/s/ Michael W. Zellner Michael W. Zellner	Vice President, Chief Financial Officer (and Principal Accounting Officer)	February 28, 2012
/s/ Jonathan Judge Jonathan Judge	Chairman of the Board of Directors	February 28, 2012
/s/ Richard E. Belluzzo Richard E. Belluzzo	Director	February 28, 2012
/s/ James V. Diller James V. Diller	Director	February 28, 2012
/s/ William Kurtz William Kurtz	Director	February 28, 2012
/s/ Frank Marshall Frank Marshall	Director	February 28, 2012
/s/ Michael Farese Michael Farese	Director	February 28, 2012
/s/ Michael A. Klayko Michael A. Klayko	Director	February 28, 2012
/s/ Dr. Richard N. Nottenburg Dr. Richard N. Nottenburg	Director	February 28, 2012

SCHEDULE II—Valuation and Qualifying Accounts

	Balance at Beginning of year	Charged to expenses or other accounts	Write-offs	Balance at end of year
Allowance for doubtful accounts				
December 31, 2011	$1,888	$ 64	$—	$1,952
December 26, 2010	$1,259	$629	$—	$1,888
December 27, 2009	$1,148	$111	$—	$1,259

INDEX TO EXHIBITS

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