



AMCC

2 0 0 8 A N N U A L R E P O R T

PROCESSING, TRANSPORTING, AND STORING INFORMATION
FOR CONVERGED NETWORKS

2008 KEY MILESTONES

- April 3, 2007** AMCC unveils its Power Architecture Processor 460EX, the most powerful member of its embedded processors portfolio 
- April 3, 2007** AMCC announces industry's first Power Architecture Processor 405EX, specifically targeting 802.11n and WIMAX Secure Wireless Access points 
- April 25, 2007** Donald Colvin elected to Applied Micro Circuits Corporation's Board of Directors; Board of Directors expanded to seven members
- May 21, 2007** AMCC announces Titan: 2GHz Power Architecture Processor for Embedded Applications
- May 21, 2007** AMCC announces the new QT2055 10Gbase-KR PHY, increasing today's backplane bandwidth by a factor of four
- June 4, 2007** AMCC announces new Embedded Processor PowerPC 405EXr that delivers best-in-class price/performance for designers of 802.11n Access Points, Residential Gateways and Advanced Set-Top Boxes
- June 19, 2007** AMCC announces new 10G ENET/OTN/SONET/SDH Mapper and FEC devices Tipi-Rubicon-192 and Tipi-Rubicon-48
- June 19, 2007** eWeek "Excellence Award 2007" Finalist: 9650SE-24M8 & 3ware Sidecar 
- June 28, 2007** "Editor's Choice, Best Storage Product," Macworld Awards 2007; nominated by the Editors: 3ware Sidecar
- August 2007** Computerworld Horizon Awards 2007 Finalist: 9650SE-24M8 & 3ware Sidecar
- September 9, 2007** AMCC Storage declared unit market share leader for SATA hardware RAID controllers in the distribution channel for the second consecutive year
- September 24, 2007** AMCC announces a new member of its Power Architecture Processor Family; the PowerPC 460GT targets wireless infrastructure and Enterprise networking applications
- September 26, 2007** Sr. VP & GM, AMCC Storage named one of Byte & Switch's 'Top Women in Storage' 
- September 30, 2007** 3ware 9690SA SAS/SATA Controller Series product launch 
- November 2007** Marcom Awards '07 Platinum Award Winner: 3ware Sidecar product marketing campaign recognized for outstanding packaging design, advertising campaign, print collateral and tradeshow signage 
- November 5, 2007** AMCC introduces its new dual 10GBE PHYs QT2225
- December 10, 2007** AMCC introduces low-cost evaluation kits for PowerPC 405EX and 405EXr processors
- January 8, 2008** AMCC PowerPC 405EX named "Product of The Year" by Electronic Products Magazine
- January 14, 2008** AMCC announces Mac OS X Leopard support
- January 20, 2008** 3ware 9690SA announced finalist for "Storage Product of the Year 2008" by Storage Magazine & Searchstorage.com 
- January 23, 2008** AMCC enhances relationship with IBM Microelectronics; expands the reach of its leading PowerPC 4xx product portfolio
- January 23, 2008** Qlogic and Accusys select PowerPC 440SPe for their storage products
- January 29, 2008** AMCC's new 10Gbe ENET/OTN Framer/Mapper/PHY PEMAQUID device enables Metro Ethernet equipment to connect directly to 10GbE optical networks 
- February 19, 2008** AMCC announces new industrial-temperature 10Gbe LAN/WAN PHY device S19263 for Metro-Ethernet and Carrier-Grade Ethernet applications 
- February 19, 2008** Optium Selects AMCC S19252 SONET/SDH/10GE Transceiver for its small form factor tunable MSA transponder
- February 19, 2008** AMCC announces PowerPC 440EPr offering ideal balance of performance and features for cost-sensitive embedded applications 
- February 25, 2008** Quanta Computer selects AMCC's QT2025 10GBe PHY for its high-density switching platform
- March 2008** 2007 Graphic Design USA American Package Design Award Winner: 3ware retail package design winners include 3ware 9690SA, 9650SE and 9590SE product packages; published in the 2008 Annual USA Packaging Awards issue
- March 28, 2008** AMCC announces it is establishing a design center in Vietnam to expand its development resources 

TO OUR STOCKHOLDERS, CUSTOMERS, PARTNERS AND EMPLOYEES:



Fiscal 2008 for AMCC can truly be characterized as a story of two halves — correction and recovery. The first half of the year saw the continued correction we had experienced in Fiscal 2007, while the second half of the year saw the recovery that we had anticipated.

The year began with a sizeable sequential decrease in our revenues and profitability. We can attribute these results to two main forces. The first was a correction in inventory with both our customers and channel partners. The second force was the consolidation at the equipment vendor and carrier levels. While AMCC was positioned with significant design wins at major customers, the inherent nature of consolidation periods resulted in short-term demand softness.

However, the macro-level demand drivers for infrastructure build remain consistent with our beliefs and have not changed. This, in addition to our strong design traction, has enabled AMCC to achieve the stronger V-shaped recovery that we experienced in the second half. The bandwidth demand is increasing at a rapid pace driven by demand for video content delivery and Web 2.0 applications. Add to this the demand for HD quality, and top carriers are predicting a potential capacity exhaust in the next 2-3 years. Storage capacity is also being deployed at a rapid pace to keep up with the demand for video storage and family photos for consumers, and data by enterprises. Storage capacity increases are seen on the network for remote access in addition to direct attached storage in the enterprise and the home.

In order to facilitate this expansion, carriers are also moving towards a simpler, flatter network. The convergence of multiple services such as voice, video and data onto a single network is resulting in tremendous cost savings for carriers. This transition to an all IP network, which is already well underway, is presenting AMCC a host of opportunities that fit extremely well with our product offerings. The investments we have been making in the areas of Process, Transport and Storage are all aligned with this transition.

In Process, we saw our revenue begin to transition to the 440 class of products from the 405-based processor. This is a higher performance core, and a majority of processor revenue is derived from the newer 440 products. After a challenging first half, we began to see strength in this part of our business in the second half, especially emerging from the Enterprise wireless access points as well as the transition to 3G wireless in the infrastructure.

The Processor market we address today is over \$1B in size and expanding at a good rate. Our products address multiple markets including Wireless Base Stations and Access Points, Wireline Equipment including switches and routers, storage platforms, enterprise switches and gateways, and high-end consumer gateways.

This past year, we introduced our first 460 device that offers speeds above 1GHz, while still maintaining industry-leading low power. Customer response has been outstanding, and we are expecting more products to emerge from the pipeline in the coming year. We also introduced the 405EX, which won the "Product of the Year" award from Electronic Products magazine.

In FY09, we intend to introduce our PacketPro family based on a new 2GHz core. PacketPro represents a new class of processor for networking applications. PacketPro is a converged processor that is designed to offer industry-leading control and dataplane processing in a single device based on the industry-leading Power Architecture.

In Transport, we are experiencing two major transitions: legacy SONET/SDH networks giving way to OTN-Based WDM networks, and enterprise switches and servers transitioning to 10G speeds, extending out into the Metro. Industry-wide Transport revenues saw declines in FY08. Again, we believed this to be a short-term phenomenon, and this business has rebounded nicely in the recovery phase. During the past year, we announced and sampled our PEMAQUID 10G Metro-Ethernet OTN chip. This device brings together two of our core technologies: high-speed IO interfaces and world-class framing technology, in a highly

integrated device that plays directly into the worldwide WAN network transition from SONET/SDH to Ethernet and OTN. It is truly an enabling product offering to this network paradigm shift.

Increased need for higher speed connectivity in the Enterprise, along with decreasing cost and smaller form factor of optical assemblies is resulting in higher density line cards with 10GE ports. 10GE ports are one of the fastest growing segments, and we expect this nascent market today to grow at nearly 50% annually over the next several years. The increased 10G density is also driving deployments for products that can handle 10G serial links in the backplanes of the server chassis. In fact, the backplane market is growing at a much more rapid pace today than any other segment in the Enterprise.

Overall, optical 10GE deployments are becoming pervasive from the Enterprise LAN to the WAN. Our growth in the 10GE optical space has been tremendous. While the Company is currently enjoying the growth of the OTN market with our very significant revenue through the Rubicon 10G OTN/FEC device, we also are seeing great design win traction on our 10GE optical products. Our penetration into the leading enterprise-class communications systems has been strong and we can also claim very significant design-win traction at a market-leading computer server company for their 10GE backplane connections.

In FY09, we expect continued growth as PEMAQUID traction ramps to volume shipments along with our other 10GE products. AMCC also intends to maintain our technological edge in this space with further investments and collaboration with tier 1 partners in the 40G and 100G space.

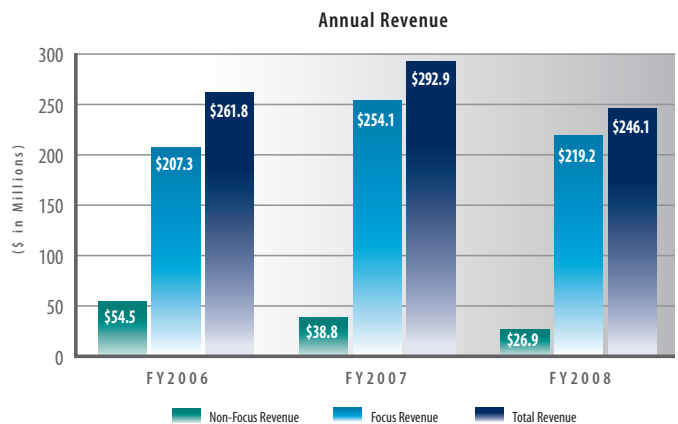
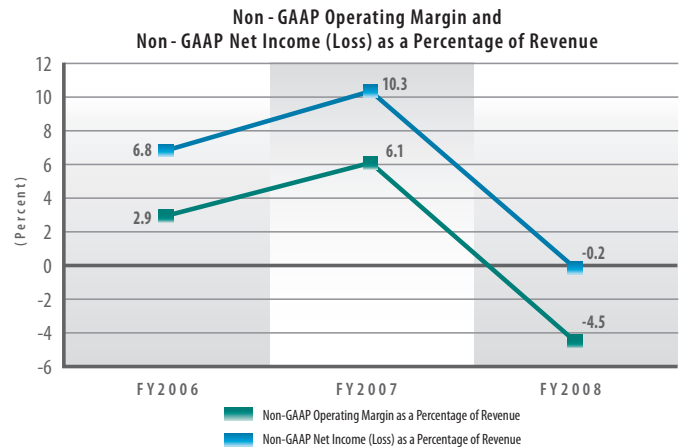
In Storage, AMCC was once again the channel leader in revenue as well as high-port density cards in SATA. Our success in storage can be attributed to our high-performance solutions and on-time market deliveries. In this space, we are beginning to see a transition from parallel to serial technologies, and SAS is beginning to emerge as the interface of choice. Having recognized this trend, AMCC introduced our first SAS controller product this past year, and immediately received top accolades from a leading website on computing hardware products — Tom's Hardware. Our SAS product was rated higher than several industry leading veterans.

Overall, the SAS transition in the channel was a bit slower than we expected. However, this was a result of a new technology delayed as the industry tried to work through interoperability issues that are typical for these types of transitions. We expect that FY09 will show nice growth in our SAS business.

This past year we revamped almost entirely our Power Architecture processor portfolio. In our Transport portfolio, we announced and shipped to large customers our chipset to capture leadership in the OTN market; we announced and shipped our 10GBase-KR and SFP+ PHY chips to lead Data-centers; and Enterprise migration to 10Gbps Ethernet; and for our Storage portfolio we announced our SAS controller and captured several key awards demonstrating our technology leadership.

PROCESS: We announced six new Power Architecture processors, from low-end PowerPC 405EX targeted toward wireless access point (low power, high performance, low cost) to the new high-end PowerPC 460GT targeted for high-end application wireless infrastructure and networking. We are seeing great response from the markets and key design wins in these and other Process products.

TRANSPORT: We announced and won at several customer platforms with the S19258 PEMAQUID; this new 10Gbe ENET/OTN Framer/Mapper/PHY PEMAQUID device enables Metro Ethernet equipment to connect directly to 10GbE optical networks. We also announced and delivered our Dual 10Gbe PHY QT2225 for 10Gbase-KR (10GbE thru the backplane) and 10Gbase-SFP+ to customers. The advanced EDC technology and standard FEC technology, used in these products are clear differentiators and the market and customers are answering positively.



STORE: We announced the 3ware® 9690SA SAS/SATA RAID controllers. Advanced RAID features, SAS connectivity, and powerful 3ware performance architecture make these new controllers the ideal choice when migrating from parallel SCSI to SAS.

FINANCIAL

Our fiscal 2008 revenues were \$246.1 million and were down 16% from the prior year. Within this we saw our revenues take a steep drop to \$50.1 million in the first fiscal quarter and then steadily improve to \$58.2 million in the second quarter, \$66.3 million in the third quarter and finally \$71.5 million in the fourth fiscal quarter. This represented sequential increases of 16.1% in the second quarter, 13.8% in the third quarter and 7.9% in the fourth quarter. Clearly we completed the V-shaped curve mentioned earlier and one that we communicated to our investors in the July 2007 time frame.

Of equal importance during the fiscal year is the fact that our Non-GAAP profitability improved similar to the revenue pattern. We fully expect our Non-GAAP profitability to further expand as our revenues grow. Additionally our cash flow from operations was positive for the last two quarters which is an accomplishment we have achieved in four of the last eight quarters.

LOOKING FORWARD

As we move forward, our strategy is clearly to continue to focus our strengths on the areas that have helped us achieve strong market and technology leadership. We feel that to truly take advantage of the competitive disruptions that are occurring in our markets, we need to be able to offer our customers truly differentiated solutions. Our differentiation will come in the form of 2GHz cores that achieve the industry-best performance at the lowest power, from our industry recognized FEC algorithm and from our ability to integrate high-speed 10G serial technology, as well as from our high-performance RAID solutions targeted for the SAS and SATA markets.

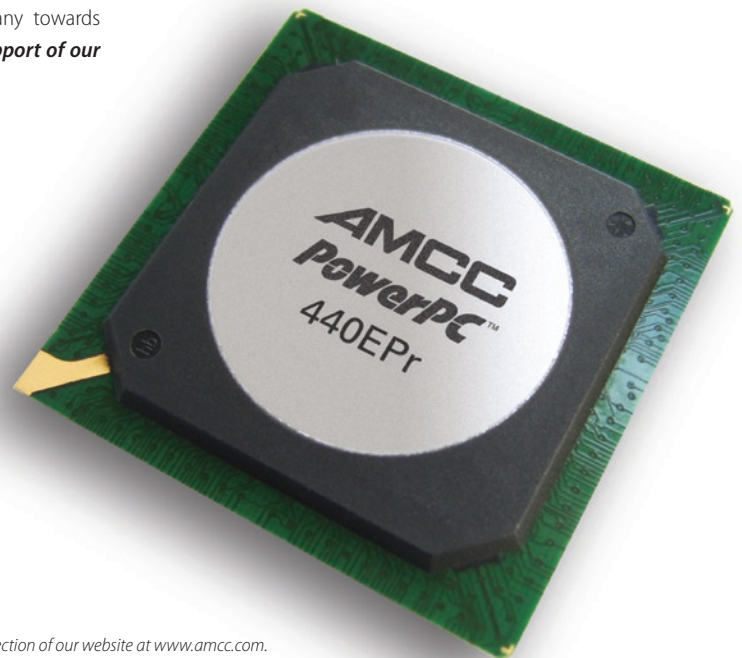
Our design win traction is the strongest I have seen here at AMCC, and I am very excited about our roadmap and the products that we will be announcing in the current fiscal year and beyond.

Our commitment to execution remains firm in order to drive the company towards higher growth and sustained profitability. **We appreciate the continued support of our employees and investors.**

Sincerely,



Kambiz Hooshmand
President & CEO
AMCC



* For a quarterly reconciliation of GAAP to Non-GAAP results, please refer to the Investor Relations section of our website at www.amcc.com.

	FY06	FY07	FY08
Annual Revenue (\$ in Millions)	\$ 261.8	\$ 292.9	\$ 246.1
Reconciliation of GAAP Operating Loss to Non-GAAP Operating Income (Loss)			
\$ in Millions			
GAAP Operating Loss	\$ (164.9)	\$ (37.2)	\$ (122.0)
Adjustments to reconcile GAAP operating loss to non-GAAP operating income (loss):			
Stock-based compensation charges	6.6	10.3	11.3
Amortization / impairments of purchased intangibles	22.2	24.8	23.7
Impairment of goodwill	131.2	-	71.5
In-process R&D charge	-	13.3	-
Restructuring charges	12.6	1.3	3.0
Gain on renegotiated design tool agreement	-	-	(0.8)
Litigation settlement, net	-	-	1.1
Expenses related to stock option investigation	-	5.3	1.1
Total adjustments to reconcile GAAP operating loss to non-GAAP operating income (loss)	172.6	55.0	110.9
Non-GAAP Operating Income (Loss)	\$ 7.7	\$ 17.8	\$ (11.1)
Non-GAAP Operating Margin as a Percentage of Revenue	2.9%	6.1%	-4.5%
Reconciliation of GAAP Net Loss to Non-GAAP Net Income (Loss)			
\$ in Millions			
GAAP Net Loss	\$ (148.4)	\$ (24.2)	\$ (115.1)
Adjustments to reconcile GAAP net loss to non-GAAP net income (loss) (see detail above)	172.6	55.0	110.9
Gains on sales of certain assets	(0.7)	-	(4.6)
Impairment of strategic investment	-	-	3.0
Impairment of long-term marketable securities	-	-	1.7
Income tax adjustments to reconcile GAAP net loss to non-GAAP net income (loss)	(5.7)	(0.5)	3.7
Total adjustments to reconcile GAAP net loss to non-GAAP net income (loss)	166.2	54.5	114.7
Non-GAAP Net Income (Loss)	\$ 17.8	\$ 30.3	\$ (0.4)
Non-GAAP Net Income (Loss) as a Percentage of Revenue	6.8%	10.3%	-0.2%
Selected Balance Sheet Items and Other Information:			
\$ and Shares in Millions			
Cash, cash equivalents and short-term investments	\$ 335.7	\$ 284.5	\$ 142.9
Days sales outstanding at year end	35	42	36
Inventory turns	5.7	5.0	3.7
Purchase of property, equipment and other assets	\$7.9	\$6.7	\$7.0
Headcount at year end	600	619	583
Annual revenue per employee (based on year end headcount)	\$ 0.436	\$ 0.473	\$ 0.422
Shares outstanding at year end	73.9	70.7	64.8

Forward Looking Statements

This annual report contains forward-looking statements, including statements concerning the anticipated future direction of the network, storage and other markets that AMCC serves, the resulting opportunities for AMCC, AMCC's strategy, plans, goals and expectations, including its targets for revenues and operating margin, and anticipated benefits from AMCC's initiatives. These forward-looking statements are only predictions based on current information and expectations and are subject to risks and uncertainties, such as those associated with customer demand for AMCC's products, which in turn is driven by the demand for AMCC's customers' products; the businesses of AMCC's major customers; the concentration of AMCC's business on and its revenue with its major customers; reductions, rescheduling and cancellation of orders by AMCC's customers; successful and timely development of new products by AMCC and its customers; AMCC's manufacturing capacity and execution; and general economic conditions in the United States and around the world. More information about these and other factors that could affect AMCC's business and financial results is included in the "Risk Factors" set forth in the annual report on Form 10-K and in AMCC's other filings with the Securities and Exchange Commission from time to time. As a result of such factors, AMCC's actual business performance and financial results could differ materially from what is set forth in the forward-looking statements. AMCC undertakes no duty to update the forward-looking statements contained in this annual report.

BOARD OF DIRECTORS

Cesar Cesaratto
Chairman of the Board
Independent Director
Compensation Committee
Governance and Nominating
Committee – Chairperson

Kambiz Hooshmand
Technical Advisory Board Committee –
Chairperson
President and Chief Executive Officer
Applied Micro Circuits Corporation

Donald Colvin
Independent Director
Audit Committee
Chief Financial Officer – ON Semiconductor

Fred Shlapak
Independent Director
Compensation Committee
Technical Advisory Board Committee
Former President and Chief Executive Officer
– Motorola Corporation SPS

Niel Ransom
Independent Director
Compensation Committee
Technical Advisory Board Committee
Former Chief Technology Officer – Alcatel

Arthur Stabenow
Independent Director
Audit Committee
Compensation Committee –
Chairperson
Governance and Nominating Committee

Julie Sullivan
Independent Director
Audit Committee – Chairperson
Governance and Nominating
Committee
Vice President and Provost,
University San Diego

EXECUTIVE OFFICERS

Kambiz Hooshmand
President and Chief Executive Officer

Robert Gargus
Senior Vice President and Chief Financial
Officer

Shiva Natarajan
Vice President and Corporate Controller

Mike Major
Vice President, Human Resources

Russell Johnson
Senior Vice President and General Manager,
Storage

Daryn Lau
Senior Vice President, Corporate
Marketing and Strategy

Cynthia Moreland
Vice President, General Counsel
and Secretary

Roger Wendelken
Vice President of World Wide Sales

ANNUAL MEETING

The AMCC 2008 Annual meeting of
Stockholders will be held at 10:00 a.m.,
on August 19, 2008 at the Company's
headquarters located at 215 Moffett Park
Drive, Sunnyvale, California 94089.

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INVESTOR INFORMATION

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Stock Market
Symbol: AMCC

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