

NEW RISK ALERT: (AVGO)

Broadcom Will Soon Know If It Must Pick Up Apple's \$800 Million Legal Tab

Apple is pressuring the chip firm to shield it from a nearly \$1 billion patent infringement lawsuit.

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September 10, 2021

This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Apple Wants Broadcom to Shield It From a Potential \$800 Million Patent Infringement Liability

In a lawsuit dating back to 2016, Broadcom, a chip maker, and Apple are accused of infringing on patents held by the California Institute of Technology (Caltech). In a January 2020 trial, a jury sided with Caltech and awarded the school damages of \$270.2 million from Broadcom and \$837.8 million from Apple.

In a [New Risk Alert](#) published nine months ago, we warned investors Apple was pressuring Broadcom to shield it from the jury verdict:

"...Apple is seeking indemnification from Broadcom."

The companies are also on the hook for unspecified royalties to be determined after the case is appealed. In its latest [10-Q](#), Broadcom updated investors regarding the appeal:

"...(the "Federal Circuit Court") and oral arguments were heard on September 1, 2021. We are unable to predict the date on which the Federal Circuit Court will issue its decision."

The leverage Apple has over Broadcom has grown since the jury verdict. The latest filing reveals Apple now accounts for 20% of Broadcom's revenue, up from 15% when the \$1 billion jury verdict was reached.

Broadcom has not recorded a reserve in connection with the litigation. If Broadcom ultimately pays Apple's share of the damages to ensure it remains a key supplier, the legal tab is equal to approximately one third of Broadcom's \$3.5 billion operating cash flow in the latest quarter.

Broadcom Reveals New Regulatory Investigation in Korea, Hints of Ongoing FTC Investigation Despite Settlement

Three months after settling [illegal monopolization](#) charges levied by the Federal Trade Commission (FTC), Broadcom indicated the regulator is still probing. The company also revealed a similar investigation is being conducted by regulators in Korea.

Not only does the latest filing indicate a parallel Korean investigation, the language Broadcom uses also indicates the FTC is not finished looking into the company's business practices:

*"...such as **the ongoing investigations by the FTC** and the Korean Fair Trade Commission into certain of our contracting and business practices, which may evolve into legal or other administrative proceedings."*