

MARVELL TECHNOLOGY GROUP LTD  
Form 10-Q  
June 11, 2009  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended May 2, 2009

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: 0-30877

**Marvell Technology Group Ltd.**

(Exact name of registrant as specified in its charter)

**Bermuda**  
(State or other jurisdiction of

**77-0481679**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**Canon s Court, 22 Victoria Street, Hamilton HM 12, Bermuda**

**(441) 296-6395**

(Address, including Zip Code, of principal executive offices and

registrant s telephone number, including area code)

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒      Accelerated filer ☐      Non-accelerated filer ☐      Smaller reporting company ☐  
(Do not check if smaller

reporting company)

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

The number of common shares of the registrant outstanding as of May 31, 2009 was 619,141,670 shares.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements:</u>	
<u>Unaudited Condensed Consolidated Balance Sheets as of May 2, 2009 and January 31, 2009</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the three months ended May 2, 2009 and May 3, 2008</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended May 2, 2009 and May 3, 2008</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	37
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
Item 3. <u>Defaults Upon Senior Securities</u>	53
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	53
Item 5. <u>Other Information</u>	53
Item 6. <u>Exhibits</u>	53
<u>Signatures</u>	54
<u>Exhibit Index</u>	55

**Table of Contents****PART I: FINANCIAL INFORMATION****Item 1. Financial Statements****MARVELL TECHNOLOGY GROUP LTD.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****ASSETS**

	<b>May 2, 2009</b>	<b>January 31, 2009</b>
Current assets:		
Cash and cash equivalents	\$ 1,059,205	\$ 927,409
Restricted cash	24,500	24,500
Accounts receivable, net	285,367	222,101
Inventories	203,590	310,654
Prepays and other current assets	52,655	61,268
Deferred income taxes	14,383	14,383
Total current assets	1,639,700	1,560,315
Property and equipment, net	371,229	390,853
Long-term investments	39,655	40,541
Goodwill	1,997,652	1,997,630
Acquired intangible assets, net	256,202	286,534
Other non-current assets	136,773	138,327
Total assets	\$ 4,441,211	\$ 4,414,200

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 166,988	\$ 139,028
Accrued liabilities	163,271	83,113
Accrued employee compensation	105,055	92,022
Income taxes payable	47,257	35,803
Deferred income	47,800	57,895
Current portion of capital lease obligations	1,824	1,787
Total current liabilities	532,195	409,648
Capital lease obligations, net of current portion	1,981	2,451
Non-current income taxes payable	113,268	123,379
Other long-term liabilities	48,212	49,655
Total liabilities	695,656	585,133
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common shares	1,238	1,233
Additional paid-in capital	4,402,167	4,372,265
Accumulated other comprehensive loss	(2,680)	(718)

# Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

Accumulated deficit	(655,170)	(543,713)
Total shareholders' equity	3,745,555	3,829,067
Total liabilities and shareholders' equity	\$ 4,441,211	\$ 4,414,200

**See accompanying notes to unaudited condensed consolidated financial statements.**

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)**

	<b>Three Months Ended</b>	
	<b>May 2, 2009</b>	<b>May 3, 2008</b>
Net revenue	\$ 521,434	\$ 804,075
Operating costs and expenses:		
Cost of goods sold	257,630	388,842
Research and development	200,249	238,475
Selling and marketing	32,646	46,088
General and administrative	101,496	12,951
Amortization of acquired intangible assets	30,356	35,247
Restructuring	8,336	
Total operating costs and expenses	630,713	721,603
Operating income (loss)	(109,279)	82,472
Interest and other income (expense), net	(72)	2,459
Interest expense	(88)	(7,151)
Income (loss) before income taxes	(109,439)	77,780
Provision for income taxes	2,018	7,841
Net income (loss)	\$ (111,457)	\$ 69,939
Net income (loss) per share:		
Basic	\$ (0.18)	\$ 0.12
Diluted	\$ (0.18)	\$ 0.11
Weighted average shares:		
Basic	618,677	601,222
Diluted	618,677	624,351

**See accompanying notes to unaudited condensed consolidated financial statements.**

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	<b>Three Months Ended</b>	
	<b>May 2, 2009</b>	<b>May 3, 2008</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (111,457)	\$ 69,939
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	25,375	28,618
Stock-based compensation	31,648	45,226
Amortization of acquired intangible assets	30,356	35,247
Fair market value adjustment to Intel inventory sold	(1,343)	(6,383)
Excess tax benefits from stock-based compensation	(29)	(169)
Realized loss on derivative contract	475	
Changes in assets and liabilities:		
Restricted cash		(24,500)
Accounts receivable	(63,266)	(38,152)
Inventories	106,281	55,918
Prepaid expenses and other assets	14,330	32,466
Accounts payable	30,738	(63,076)
Accrued liabilities and other	62,980	(18,807)
Accrued employee compensation	13,033	16,963
Income taxes payable	1,343	6,656
Deferred income	4,065	(9,753)
Net cash provided by operating activities	144,529	130,193
<b>Cash flows from investing activities:</b>		
Purchases of investments		(10,126)
Sales and maturities of investments		23,793
Purchases of technology licenses	(9,300)	
Purchases of property and equipment	(3,414)	(30,522)
Net cash used in investing activities	(12,714)	(16,855)
<b>Cash flows from financing activities:</b>		
Proceeds from the issuance of common shares	385	17,054
Principal payments on capital lease and debt obligations	(433)	(2,125)
Excess tax benefits from stock-based compensation	29	169
Net cash provided by (used in) financing activities	(19)	15,098
Net increase in cash and cash equivalents	131,796	128,436
Cash and cash equivalents at beginning of period	927,409	615,648
Cash and cash equivalents at end of period	\$ 1,059,205	\$ 744,084

See accompanying notes to unaudited condensed consolidated financial statements.





**Table of Contents**

**MARVELL TECHNOLOGY GROUP LTD.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. The Company and its Significant Accounting Policies**

**The Company**

Marvell Technology Group Ltd., a Bermuda company (the "Company"), is a leading global semiconductor provider of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits. The Company's diverse product portfolio includes switching, transceivers, wireless, PC connectivity, gateways, communications controllers, storage and power management solutions that serve diverse applications used in business enterprise, consumer electronics and emerging markets.

**Basis of presentation**

The Company's fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2010 and fiscal 2009 are comprised of a 52-week period.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments consisting of normal and recurring entries considered necessary for a fair statement of the results for the interim periods have been included in the Company's financial position as of May 2, 2009, the results of its operations for the three months ended May 2, 2009 and May 3, 2008, and its cash flows for the three months ended May 2, 2009 and May 3, 2008. The January 31, 2009 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in the Company's 2009 Annual Report on Form 10-K for the year ended January 31, 2009 but does not include all disclosures required by GAAP. Certain reclassifications have been made to conform to the current period's presentation.

These condensed consolidated financial statements and related notes are unaudited and should be read in conjunction with the Company's audited financial statements and related notes for the year ended January 31, 2009 included in the Company's Annual Report on Form 10-K as filed on March 28, 2008 with the Securities and Exchange Commission ("SEC"). The results of operations for the three months ended May 2, 2009 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year.

**Use of estimates**

The preparation of consolidated financial statements in conformity with GAAP in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to performance-based compensation, uncollectible receivables, inventory excess and obsolescence, the useful lives of long-lived assets including property and equipment, investment fair values, goodwill and other intangible assets, income taxes and contingencies. In addition, the Company uses assumptions when employing the Black-Scholes option valuation model to calculate the fair value of stock-based awards granted. The Company bases its estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, when these carrying values are not readily available from other sources. Actual results could differ from these estimates, and such differences could affect the results of operations reported in future periods.

**Principles of consolidation**

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated. The functional currency of the Company and its subsidiaries is the United States dollar.

## **Table of Contents**

### **Cash and cash equivalents**

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market funds.

### **Investments**

The Company's marketable investments are classified as available-for-sale securities and are reported at fair value. Unrealized gains and losses are reported, net of tax, if any, in accumulated other comprehensive income (loss), a component of shareholders' equity. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest and other income, net.

The Company also has equity investments in privately-held companies. These investments are recorded at cost and are included in other non-current assets. The Company accounts for these investments under the cost method because its ownership is less than 20% and it does not have the ability to exercise significant influence over the operations of these companies. The Company monitors these investments for impairment and makes appropriate reductions in carrying value when impairment is deemed to be other than temporary.

### **Derivative financial instruments**

The Company accounts for its derivative instruments as either assets or liabilities and carries them at fair value. Derivatives that are not defined as hedges in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133), must be adjusted to fair value through earnings. For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income in shareholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in current earnings. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings.

For derivative instruments that hedge the exposure to changes in the fair value of an asset or a liability and that are designated as fair value hedges and for other derivatives not designated as hedging instruments under SFAS 133 that we use to hedge monetary assets or liabilities denominated in currencies other than the U.S. dollar, the net gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in earnings in the current period.

### **Concentration of credit risk**

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash equivalents, short-term investments and accounts receivable. The Company places its cash primarily in checking and money market accounts. Cash equivalents and short-term investment balances are maintained with high quality financial institutions, the composition and maturities of which are regularly monitored by management. The Company believes that the concentration of credit risk in its trade receivables with respect to its served markets, as well as the limited customer base located primarily in the Asia Pacific Region, are substantially mitigated by the Company's credit evaluation process, relatively short collection terms and the high level of credit worthiness of its customers. The Company performs ongoing credit evaluation of its customers' financial condition and limits the amount of credit extended when deemed necessary based upon payment history and the customer's current credit worthiness, but generally requires no collateral. The Company regularly reviews the allowance for bad debt and doubtful accounts by considering factors such as historical experience, credit quality, age of the account receivable balances and current economic conditions that may affect a customer's ability to pay.

### **Inventories**

Inventories are stated at the lower of cost or market, determined under the first-in, first-out method. The Company establishes inventory excess and obsolescence provisions for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and estimated net realizable value based upon assumptions about future demand and market conditions. Shipping and handling costs are classified as a component of cost of goods sold in the unaudited condensed consolidated statements of operations.

## **Table of Contents**

### **Property and equipment, net**

Property and equipment, including capital leases and leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation for property and equipment other than buildings is computed using the straight-line method over the estimated useful lives of the assets, which ranges from three to five years. Buildings are depreciated over an estimated useful life of 30 years and building improvements are depreciated over estimated useful lives of 15 years. Land is not depreciated. Assets held under capital leases and leasehold improvements are amortized over the shorter of term of lease or their estimated useful lives.

### **Goodwill and acquired intangible assets, net**

Goodwill is recorded when the consideration paid for a business acquisition exceeds the fair value of net tangible and intangible assets acquired. Acquisition-related identified intangible assets are amortized on a straight-line basis over their estimated economic lives of one to seven years for purchased technology, one to eight years for core technology, four to seven years for customer contracts and three years for non-compete agreements.

Goodwill is measured and tested for impairment on an annual basis during the fourth fiscal quarter or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step requires comparing the fair value of the reporting unit to its net book value, including goodwill. As the Company has only one reporting unit, the fair value of the reporting unit is determined by taking the market capitalization of the reporting unit as determined through quoted market prices and adjusted for control premiums and other relevant factors. A potential impairment exists if the fair value of the reporting unit is lower than its net book value. The second step of the process is only performed if a potential impairment exists, and it involves determining the difference between the fair value of the reporting unit's net assets other than goodwill and the fair value of the reporting unit. If the difference is less than the net book value of goodwill, impairment exists and is recorded. In the event that the Company determines that the value of goodwill has become impaired, the Company will record an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made. The Company has not been required to perform this second step of the process since its implementation of SFAS No. 142, Goodwill and Other Intangible Assets, because the fair value of the reporting unit has exceeded its net book value at every measurement date.

### **Impairment of long-lived assets**

Long-lived assets include equipment, furniture and fixtures, privately held equity investments and intangible assets. Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, the Company estimates the future cash flows, undiscounted and without interest charges, expected to result from the use of those assets and their eventual cash position. If the sum of the expected future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets.

### **Revenue recognition**

The Company accounts for its revenues under the provisions of Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements. Under these provisions, the Company recognizes revenues when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured.

Product revenue is generally recognized upon shipment of product to customers, net of accruals for estimated sales returns. However, some of the Company's sales are made through distributors under agreements allowing for price protection, shipped from stock pricing adjustment rights and limited rights of return on product unsold by the distributors. Although title passes to the distributor upon shipment terms and payment by the Company's distributors is not contingent on resale of the product, product revenue on sales made through distributors with price protection, ship from stock pricing adjustment and stock rotation rights is deferred until the distributors sell the product to end customers because the Company's selling price is not fixed and determinable and the Company is not able to estimate reliably future returns. Deferred revenue less the related cost of the inventories is reported as deferred income. The Company does not believe that there is any significant exposure related to impairment of deferred cost of sales, as its historical returns have been minimal and inventory turnover for its distributors generally ranges from 60 to 90 days. The Company's sales to direct customers are made primarily pursuant to standard purchase orders for delivery of products. The Company generally allows customers to cancel or change purchase orders with limited notice prior to the scheduled shipment dates and from

## **Table of Contents**

time to time it also may request a customer to accept a shipment of product before its original requested delivery date, in which case, revenue is not recognized until there is written confirmation from the customer accepting early shipment, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured. Additionally, collection is not deemed to be reasonably assured, fixed or determinable if customers receive extended payment terms. As a result, revenue on sales to customers with payment terms substantially greater than the Company's normal payment terms is deferred and is recognized as revenue as the payments become due. Revenue related to the sale of consignment inventory is not recognized until the product is pulled from inventory stock by the customer.

The provision for estimated sales returns on product sales is recorded in the same period the related revenues are recorded. These estimates are based on historical sales returns and other known factors. Actual returns could differ from these estimates.

The Company accounts for rebates in accordance with EITF Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products), and, accordingly, records reductions to revenue for rebates in the same period that the related revenue is recorded. The amount of these reductions is based upon the terms included in the Company's various rebate agreements.

### **Research and development expenses**

Research and development expenses are expensed as incurred.

### **Accounting for income taxes**

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under this method, the Company determines deferred tax assets and liabilities based upon the difference between the income tax basis of assets and liabilities and their respective financial reporting amounts at enacted tax rates in effect for the periods in which the differences are expected to reverse. The tax consequences of most events recognized in the current year's financial statements are included in determining income taxes currently payable. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains and losses, differences arise between the amount of taxable income and pretax financial income for a year and between the tax basis of assets or liabilities and their reported amounts in the financial statements. Because it is assumed that the reported amounts of assets and liabilities will be recovered or settled, a difference between the tax basis of an asset or liability and its reported amount on the balance sheet will result in a taxable or a deductible amount in some future years when the related liabilities are settled or assets are recovered, hence giving rise to a deferred tax liability or asset, respectively. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent the Company believes that recovery is not more likely than not, the Company would establish a valuation allowance. The Company accounts for uncertain tax positions in accordance with the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Tax Positions (FIN 48). The Company classifies accrued interest and penalties as part of the accrued FIN 48 liability and records the expense within the provision for income taxes. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement.

The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, the Company is required to make many subjective assumptions and judgments regarding its income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations are subject to change over time. As such, changes in its subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of income. See Note 12 - Income Taxes of the notes to unaudited condensed consolidated financial statements for additional detail on the Company's uncertain tax positions.

### **Warranty**

The Company's products are generally subject to warranty, which provides for the estimated future costs of repair, replacement or customer accommodation upon shipment of the product. The Company's products typically carry a standard 90-day warranty, with certain exceptions in which the warranty period can range from one to five years. The warranty accrual is primarily estimated based on historical claims compared to historical revenues and assumes that the Company will have to replace products subject to a claim. For new products, the Company uses a historical percentage for the appropriate class of product. From time to time, the Company becomes aware of specific warranty situations which are relatively large and it records specific amounts to cover these exposures in addition to the standard run rate provisions.

## **Table of Contents**

### **Note 2. Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. Although the adoption of SFAS 141R during the first quarter ended May 2, 2009 had no impact on the Company's financial position and results of operations, the Company expects SFAS 141R will have an impact on its consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions it consummates after the effective date of February 1, 2009.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), to partially defer SFAS No. 157, *Fair Value Measurements* (SFAS 157). FSP 157-2 defers the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The adoption of FSP 157-2 in the first quarter of fiscal 2010 did not have a material impact on the Company's financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133 and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of SFAS 161 in the first quarter of fiscal 2010 did not have a material impact on the Company's financial position and results of operations.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is not permitted. The adoption of FSP FAS 142-3 in the first quarter of fiscal 2010 did not have an impact on the Company's financial position and results of operations.

In April 2009, the FASB issued three related Staff Positions: (i) FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4), (ii) FSP No. FAS 115-2 and FSP FAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FSP FAS 124-2), and (iii) FSP FAS No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1), which will be effective for interim and annual periods ending after June 15, 2009. FSP FAS 157-4 provides guidance on how to determine the fair value of financial assets and liabilities under SFAS 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value. As a result, a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP FAS 115-2 and FSP FAS 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP FAS 107-1 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. The Company is currently evaluating the impact of adopting these Staff Positions.

In April 2009, the FASB issued FSP No. 141R-1 *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP 141R-1). FSP 141R-1 amends the provisions in SFAS 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP 141R-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS 141R and instead carries forward most of the

**Table of Contents**

provisions in SFAS 141R for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company expects that FSP 141R-1 could have an impact on its financial position and results of operations, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquired contingencies.

**Note 3. Investments**

The following tables summarize the Company's investments (in thousands):

		As of May 2, 2009		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Loss	Estimated Fair Value
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	\$ 36,850	\$	\$ (2,195)	\$ 34,655
Trading securities:				
Auction rate securities and settlement option	5,000			5,000
Total long-term investments	\$ 41,850	\$	\$ (2,195)	\$ 39,655
Total Investments	\$ 41,850	\$	\$ (2,195)	\$ 39,655

		As of January 31, 2009		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Loss	Estimated Fair Value
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	\$ 36,850	\$	\$ (1,309)	\$ 35,541
Trading securities:				
Auction rate securities and settlement option	5,000			5,000
Total long-term investments	\$ 41,850	\$	\$ (1,309)	\$ 40,541
Total Investments	\$ 41,850	\$	\$ (1,309)	\$ 40,541

As of May 2, 2009 and January 31, 2009, the Company's investment portfolio included \$41.9 million in par value of auction rate securities. Auction rate securities are usually found in the form of municipal bonds, preferred stock, pools of student loans or collateralized debt obligations with contractual maturities generally between 20 and 30 years and whose interest rates are reset every seven to 35 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The Company's auction rate securities are all backed by student loans originated under the Federal Family Education Loan Program (the FFELP) and are over-collateralized, insured and guaranteed by the U.S. Federal Department of Education. All auction rate securities held by the Company are rated by the major independent rating agencies as either AAA or Aaa at the time of purchase.

In the fourth quarter ended January 31, 2009, UBS, one of the brokers who the Company purchased auction rate securities from, offered a settlement where UBS has the right to call and sell one of the auction rate securities the Company purchased from them at par value of \$5 million at a future date. As a result of the Company's participation in this settlement, the Company included the put option from the settlement in long term investments and elected to apply SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities," to measure the put option at fair value. The Company also elected to transfer this auction rate security to trading securities from available-for-securities pursuant to

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, as the Company's intent is to exercise the put option at a future date.

As of May 2, 2009, the estimated fair values of the auction rate securities were \$2.2 million less than their par value. The Company has less than 4.0% of its total cash invested in these auction rate securities, a cash balance of approximately \$1.1 billion in other than auction rate securities and restricted cash, and continues to generate positive cash flow on a quarterly basis. As the Company has the ability and intent to hold these securities until recovery, the Company concluded the decline in fair values was temporary and recorded the unrealized loss to accumulated other comprehensive income (loss), a component of shareholders' equity as of May 2, 2009.

**Table of Contents**

The final contractual maturities of available-for-sale and trading debt securities at May 2, 2009 and January 31, 2009 are presented in the following table (in thousands):

	May 2, 2009		January 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$	\$	\$	\$
Due between one and five years				
Due over five years	41,850	39,655	41,850	40,541
	\$ 41,850	\$ 39,655	\$ 41,850	\$ 40,541

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	May 2, 2009			
	12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
Auction rate securities and settlement option	\$ 39,655	\$ (2,195)	\$ 39,655	\$ (2,195)
Total securities	\$ 39,655	\$ (2,195)	\$ 39,655	\$ (2,195)

	January 31, 2009			
	12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized Loss
Auction rate securities and settlement option	\$ 40,541	\$ (1,309)	\$ 40,541	\$ (1,309)
Total securities	\$ 40,541	\$ (1,309)	\$ 40,541	\$ (1,309)

**Note 4. Supplemental Financial Information (in thousands):****Inventories**

	May 2, 2009	January 31, 2009
Work-in-process	\$ 138,279	\$ 188,830
Finished goods	65,311	121,824
	\$ 203,590	\$ 310,654

**Property and equipment, net**



Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

	May 2, 2009	January 31, 2009
Machinery and equipment	\$ 346,919	\$ 343,772
Computer software	76,626	75,986
Furniture and fixtures	23,679	23,490
Leasehold improvements	40,026	38,872
Buildings	146,294	146,294
Building improvements	45,452	45,329
Land	71,198	71,198
Construction in progress	583	2,483
	750,777	747,424
Less: Accumulated depreciation and amortization	(379,548)	(356,571)
	\$ 371,229	\$ 390,853

**Table of Contents****Other non-current assets**

	May 2, 2009	January 31, 2009
Long term prepayments for foundry capacity	\$ 6,400	\$ 8,800
Equity investments in privately held companies	7,058	7,058
Severance fund	42,472	43,121
Technology licenses	27,500	24,108
Deferred tax assets, non-current	41,575	41,575
Other	11,768	13,665
	\$ 136,773	\$ 138,327

**Accrued liabilities**

	May 2, 2009	January 31, 2009
Accrued royalties	5,700	5,660
Accrued rebates	18,886	28,925
Accrued legal and professional services	27,358	25,719
Accrued legal settlement	72,000	
Other	39,327	22,809
	\$ 163,271	\$ 83,113

**Other long-term liabilities**

	May 2, 2009	January 31, 2009
Accrued severance	\$ 45,551	\$ 46,716
Long-term facilities consolidation charge	1,893	2,246
Other	768	693
	\$ 48,212	\$ 49,655

**Net income (loss) per share**

The Company reports both basic net income (loss) per share, which is based upon the weighted average number of common shares outstanding excluding contingently issuable or returnable shares, and diluted net income (loss) per share, which is based on the weighted average number of common shares outstanding and dilutive potential common shares. The computations of basic and diluted net income (loss) per share are presented in the following table (in thousands, except per share amounts):

	Three Months Ended	
	May 2, 2009	May 3, 2008
Numerator:		

# Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

Net income (loss)	\$ (111,457)	\$ 69,939
Denominator:		
Weighted average shares of common shares outstanding		
Weighted average shares basic	618,677	601,222
Effect of dilutive securities:-		
Warrants		1,262
Common share options and other		21,867
Weighted average shares diluted	618,677	624,351
Net income (loss) per share		
Basic	\$ (0.18)	\$ 0.12
Diluted	\$ (0.18)	\$ 0.11

**Table of Contents**

Stock options, restricted stock and other securities totaling 17,063,009 shares were excluded from diluted net loss per share for the three months ended May 2, 2009 as their impact would be anti-dilutive in a net loss period. Options to purchase 62,738,324 common shares at a weighted average exercise price of \$20.13 have been excluded from the computation of diluted net income per share for the three months ended May 3, 2008 because their exercise price was greater than the share price of the Company's common shares and therefore, the effect would have been anti-dilutive.

**Comprehensive income (loss) (in thousands)**

The changes in the components of other comprehensive income (loss) were as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>May 2, 2009</b>	<b>May 3, 2008</b>
Net income (loss)	\$ (111,457)	\$ 69,939
Other comprehensive income (loss):		
Change in unrealized loss on cash flow hedges	(1,076)	
Unrealized gain (loss) on available-for-sale investments and other	(886)	(1,698)
<b>Total comprehensive income (loss)</b>	<b>\$ (113,419)</b>	<b>\$ 68,241</b>

The components of accumulated other comprehensive loss were as follows (in thousands):

	<b>May 2, 2009</b>	<b>January 31, 2009</b>
Unrealized gain (loss) on marketable securities, net of taxes	\$ (2,195)	\$ (1,309)
Unrealized gain (loss) on cash flow hedges, net of taxes	(1,076)	
Other	591	591
<b>Accumulated other comprehensive loss</b>	<b>\$ (2,680)</b>	<b>\$ (718)</b>

**Note 5. Derivative Financial Instruments**

The Company manages its foreign currency exchange rate risk through foreign currency forward exchange contracts to hedge against the short-term impact of currency fluctuations. The Company's policy is to enter into foreign currency forward exchange contracts with maturities generally less than 12 months to mitigate the impact of currency exchange fluctuations on certain local currency denominated operating expenses. All derivatives are recorded at fair value in either prepaid and other current assets or other accrued liabilities. The Company reports cash flows from derivative instruments in cash flows from operating activities. The Company used quoted prices to value our derivative instruments.

As of May 2, 2009, the notional amounts of outstanding hedge contracts were as follows:

	<b>Buy Contracts</b>	<b>Sell Contracts</b>
	<b>(in thousands)</b>	
Israeli shekel	\$ 45,444	\$
Total	\$ 45,444	\$

*Cash Flow Hedges.* The Company designates and documents its foreign currency forward exchange contracts as cash flow hedges on payroll-related costs denominated in Israeli shekels. The Company evaluates and calculates the effectiveness of each hedge at least quarterly, using the critical terms match method. The effective change is recorded in other comprehensive income (loss) (OCI) and is subsequently reclassified to payroll expense when the hedged expense is recognized. Ineffectiveness is recorded in other income/expense. In the event it

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

becomes probable that the critical terms of the hedge and the hedged transaction will not match, effectiveness is measured using the dollar offset method and the gains or losses on the ineffective portion are immediately reclassified from accumulated other comprehensive income (loss) to other expense in the Condensed Consolidated Statement of Operations.

**Table of Contents**

*Other Foreign Currency Hedges.* The Company enters into foreign currency forward exchange contracts to hedge certain vendor payments denominated in Israeli shekels that we do not designate and document as cash flow hedges. The maturities of these contracts are generally less than 12 months. Gains or losses arising from the remeasurement of these contracts to fair value each period are recorded in other expenses, net.

The fair value and balance sheet classification of foreign exchange contract derivatives are as follows:

	May 2, 2009 (In thousands)
Other accrued liabilities:	
Derivative liabilities designated as hedging instruments:	
Cash flow hedges	\$ (1,076)
Derivative liabilities not designated as hedging instruments:	
Other foreign currency hedges cash flow hedges	(475)
 Total derivative liabilities	 \$ (1,551)

The following tables summarize the pre-tax effect of foreign exchange contract derivatives by (a) cash flow hedges and (b) other foreign currency hedges on OCI and the Condensed Consolidated Statement of Operations for the three months ended May 2, 2009.

## (a) Cash Flow Hedges:

	Three Months Ended May 2, 2009 (In thousands)
Accumulated loss in OCI, beginning of period	\$
Losses recorded in OCI (effective portion)	(1,076)
Losses reclassified from OCI to payroll expense (effective portion)	
 Accumulated loss in OCI, end of period	 \$ (1,076)

The Company anticipates reclassifying the accumulated loss recorded as of May 2, 2009 from OCI to payroll expense within 12 months.

## (b) Other Foreign Currency Hedges:

	Three Months Ended May 2, 2009 (In thousands)
Losses recognized in other expenses, net	\$ (475)

**Note 6. Fair Value Measurements**

Effective February 3, 2008, the Company adopted SFAS 157, except as it applies to the non-financial assets and non-financial liabilities subject to FSP 157-2 which the Company adopted during the first quarter ended May 2, 2009. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

**Table of Contents**

Level 3 - Unobservable inputs that are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with SFAS 157, the Company measures its cash equivalents and marketable securities at fair value. The Company's cash equivalents and marketable securities are primarily classified within Level 1 with the exception of our investments in auction rate securities, which are classified within Level 3. Cash equivalents and marketable securities are valued primarily using quoted market prices utilizing market observable inputs. The Company's investments in auction rate securities are classified within Level 3 because there are no active markets for the auction rate securities and therefore the Company is unable to obtain independent valuations from market sources. Therefore, the auction rate securities were valued using a discounted cash flow model (see Note 3 above). Some of the inputs to the cash flow model are unobservable in the market. The total amount of assets measured using Level 3 valuation methodologies represented 0.9% of total assets as of May 2, 2009.

The table below sets forth, by level, our financial assets that were accounted for at fair value as of May 2, 2009. The table does not include assets and liabilities that are measured at historical cost or any basis other than fair value (in thousands):

	Fair Value Measurements as of May 2, 2009			
	Total	Level 1	Level 2	Level 3
<b>Items measured at fair value on a recurring basis:</b>				
Cash equivalents:				
Money market funds	\$ 549,794	\$ 549,794	\$	\$
Long-term investments:				
Auction rate securities and settlement option	39,655			39,655
Total	\$ 589,449	\$ 549,794	\$	\$ 39,655

The following table summarizes the change in fair values for Level 3 items for the three months ended May 2, 2009:

	Level 3
<b>Changes in fair value during the period ended May 2, 2009 (pre-tax):</b>	
Beginning balance at February 1, 2009	\$ 40,541
Purchases	
Sales	
Unrealized loss included in other comprehensive income (loss)	(886)
Ending balance at May 2, 2009	\$ 39,655



**Table of Contents****Note 7. Acquired Intangible Assets, Net**

	As of May 2, 2009			As of January 31, 2009		
	Gross Carrying Amount	Accumulated Amortization and Write-Offs	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization and Write-Offs	Net Carrying Amount
Purchased technology	\$ 714,640	\$ (630,130)	\$ 84,510	\$ 714,640	\$ (615,206)	\$ 99,434
Core technology	212,650	(109,081)	103,569	212,650	(101,990)	110,660
Trade name	350	(229)	121	350	(219)	131
Customer contracts	183,300	(115,543)	67,757	183,300	(107,294)	76,006
Supply contract	900	(900)		900	(900)	
Non-compete agreements	700	(455)	245	700	(397)	303
Total intangible assets, net	\$ 1,112,540	\$ (856,338)	\$ 256,202	\$ 1,112,540	\$ (826,006)	\$ 286,534

Purchased technology is amortized on a straight-line basis over their estimated useful lives of one to seven years. Core technology is amortized on a straight-line basis over its estimated useful lives of one to eight years. Trade name is amortized on a straight-line basis over its estimated useful life of one to five years. Customer contracts and related relationships are amortized on a straight-line basis over their estimated useful lives of four to seven years. Non-compete agreements are amortized on a straight-line basis over three years.

Based on the identified intangible assets recorded at May 2, 2009, the future amortization expense of identified intangibles for the next five fiscal years is as follows (in thousands):

Fiscal year	Amount
Remainder of fiscal 2010	\$ 76,146
2011	79,913
2012	41,951
2013	35,217
2014	22,093
Thereafter	882
	<b>\$ 256,202</b>

**Note 8. Restructuring**

During the three months ended May 2, 2009, in response to the challenging economic environment, the Company implemented certain cost reduction measures that included reductions in workforce in all functions of the organization worldwide. As a result, a restructuring charge of \$8.3 million was recorded which consisted of \$7.4 million of severance and related employee benefits to approximately 300 terminated employees and \$0.9 million of equipment and other related charges. This is in addition to the approximately 208 employees who were terminated during the fourth quarter ended January 31, 2009 that resulted in a restructuring charge of \$9.7 million, which consisted of \$6.6 million of severance and related employee benefits, approximately \$2.7 million of charges related to the impairment of abandoned facilities and \$0.4 million of other equipment charges. All expenses associated with the Company's restructuring plans are included in Restructuring in the Unaudited Condensed Consolidated Statements of Operations.

The following table sets forth an analysis of the components of the restructuring charges and the payments made through May 2, 2009 (in thousands):

Three Months Ended

Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

	May 2, 2009	May 3, 2008
Restructuring liabilities, beginning of period	\$ 7,685	\$ 2,731
Severance and related charges	7,420	
Equipment and other related charges	916	
Net cash payments	(8,654)	(1,070)
Restructuring liabilities, end of period	\$ 7,367	\$ 1,661

**Table of Contents**

The Company anticipates that \$3.8 million will be paid out in cash during the three months ending August 1, 2009. The remaining facility lease charges included in the restructure liabilities will be paid out through fiscal 2019.

**Note 9. Commitments and Contingencies****Warranty obligations**

The following table presents changes in the warranty accrual included in accrued liabilities during the three months ended May 2, 2009 and May 3, 2008 (in thousands):

	<b>Three Months Ended</b>	
	<b>May 2, 2009</b>	<b>May 3, 2008</b>
Warranty accrual (included in accrued liabilities):		
Beginning balance	\$ 2,094	\$ 2,532
Accruals	2,523	512
Settlements	(412)	(503)
Ending balance	\$ 4,205	\$ 2,541

**Intellectual property indemnification**

The Company has agreed to indemnify certain customers for claims made against the Company's products, where such claims allege infringement of third party intellectual property rights, including, but not limited to, patents, registered trademarks and/or copyrights. Under the aforementioned indemnification clauses, the Company may be obligated to defend the customer and pay for the damages awarded against the customer under an infringement claim, including paying for the customer's attorneys' fees and costs. The Company's indemnification obligations generally do not expire after termination or expiration of the agreement containing the indemnification obligation. In certain cases, there are limits on and exceptions to the Company's potential liability for indemnification. Although historically the Company has not made significant payments under these indemnification obligations, the Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements. However, the maximum potential amount of any future payments that the Company could be required to make under these indemnification obligations could be significant.

**Purchase commitments**

On February 28, 2005 and as amended on March 31, 2005, the Company entered into an agreement with a foundry to reserve and secure foundry fabrication capacity for a fixed number of wafers at agreed upon prices for a period of five and a half years beginning on October 1, 2005. In return, the Company agreed to pay the foundry \$174.2 million over a period of 18 months. The amendment extends the term of the agreement and the agreed upon pricing terms until December 31, 2015. As of May 2, 2009, payments totaling \$174.2 million (included in prepaid expenses and other current assets and other non-current assets) have been made and approximately \$155.0 million of the prepayment has been utilized as of May 2, 2009. At May 2, 2009, there were no outstanding commitments under the agreement.

Under the Company's manufacturing relationships with foundries, cancellation of all outstanding purchase orders are allowed but require repayment of all expenses incurred through the date of cancellation. As of May 2, 2009, the amount of open purchase orders to these foundries is approximately \$133.9 million.

As of May 2, 2009, the Company had approximately \$14.7 million of other outstanding non-cancelable purchase orders for capital purchase obligations.

**Contingencies**

*IPO Securities Litigation.* On July 31, 2001, a putative class action suit was filed against two investment banks that participated in the underwriting of the Company's initial public offering (the IPO) on June 29, 2000. That lawsuit, which did not name the Company or any of its officers or directors as defendants, was filed in the United States District Court for the Southern District of New York. Plaintiffs allege that the

underwriters received excessive and undisclosed commissions and entered into

## **Table of Contents**

unlawful tie-in agreements with certain of their clients in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Thereafter, on September 5, 2001, a second putative class action was filed in the Southern District of New York relating to the Company's IPO. In this second action, plaintiffs named three underwriters as defendants and also named as defendants the Company and two of its officers, one of whom is also a director. Relying on many of the same allegations contained in the initial complaint, plaintiffs allege that the defendants violated various provisions of the Securities Act of 1933, as amended, and the Exchange Act. In both actions, plaintiffs seek, among other items, unspecified damages, pre-judgment interest and reimbursement of attorneys' and experts' fees. These two actions have been consolidated and coordinated with hundreds of other lawsuits filed by plaintiffs against approximately 40 underwriters and approximately 300 issuers across the United States. Defendants in the coordinated proceedings moved to dismiss the actions. In February 2003, the trial court granted the motions in part and denied them in part, thus allowing the case to proceed against the Company and the underwriters. Claims against the individual officers have been voluntarily dismissed with prejudice by agreement with plaintiffs. In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including the Company, was submitted to the Court for approval. On August 31, 2005, the Court preliminarily approved the settlement. In December 2006, the appellate court overturned the certification of classes in the six focus cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceedings (the action involving the Company is not one of the six cases). Because class certification was a condition of the settlement, it was unlikely that the settlement would receive final Court approval. On June 25, 2007, the Court entered an order terminating the proposed settlement based upon a stipulation among the parties to the settlement. Plaintiffs filed amended master allegations and amended complaints in the six focus cases. Defendants' motions to dismiss those new complaints were denied in part and granted in part.

The parties have reached a global settlement of the litigation and have so advised the Court. Under the settlement, which remains subject to Court approval, the insurers would pay the full amount of settlement share allocated to the Company, and the Company would bear no financial liability. The Company, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, would receive complete dismissals from the case. Plaintiffs filed the fully-executed settlement papers and their motion for preliminary settlement approval with the Court on April 2, 2009. It is uncertain whether the settlement will receive final Court approval.

*Section 16(b) Litigation.* On October 9, 2007, a purported shareholder of the Company filed a complaint for violation of Section 16(b) of the Exchange Act, which prohibits short swing trading, against the Company's IPO underwriters. The complaint *Vanessa Simmonds v. The Goldman Sachs Group, et al.*, Case No. C07-1632 filed in District Court for the Western District of Washington, seeks the recovery of short-swing profits. The Company is named as a nominal defendant. No recovery is sought from the Company. Numerous similar suits were filed by the same plaintiff against other underwriters relating to other issuers. After a hearing on motions to dismiss filed by the underwriter defendants and some of the issuer defendants (excluding the Company) on January 16, 2009, the district court ordered dismissal of all claims against the moving issuer defendants without prejudice. The court also ordered dismissal of all claims against the underwriter defendants with prejudice. On April 10, 2009, the plaintiffs filed their notice of appeal to those dismissal orders. Appellate briefings will be filed July through September 2009; the Ninth Circuit Court of Appeals has not set a hearing date. No discovery has taken place.

*Jasmine Networks Litigation.* On September 12, 2001, Jasmine Networks, Inc. ( Jasmine ) filed a lawsuit in the Santa Clara County Superior Court alleging claims against the Company and three of its officers for allegedly improperly obtaining and using information and technologies during the course of the negotiations with its personnel regarding the potential acquisition of certain Jasmine assets by the Company. The lawsuit claims that the Company's officers used such information and technologies after the Company signed a nondisclosure agreement with Jasmine. The Company believes the claims asserted against its officers and the Company are without merit and the Company intends to defend all claims vigorously.

On June 21, 2005, the Company filed a cross complaint in the above disclosed action in the Santa Clara County Superior Court asserting claims against Jasmine and unnamed Jasmine officers and employees. The cross complaint was later amended to name two individual officers of Jasmine and a second amended cross complaint was filed in May 2007 adding additional causes of action for declaratory relief against Jasmine. The second amended cross complaint alleges that Jasmine and its personnel engaged in fraud in connection with their effort to sell the Company technology that Jasmine and its personnel wrongfully obtained from a third party in violation of such third party's rights, and that such technology does not constitute trade secrets or property of Jasmine. The cross complaint seeks a declaratory judgment that the Company's technology does not incorporate any of Jasmine's alleged technology. The cross complaint seeks further a declaratory judgment that Jasmine and its personnel misappropriated certain aspects of Jasmine's allegedly proprietary technology. The Company defeated Jasmine's demurrer to certain of the causes of action in the cross complaint and Jasmine filed its answer. The Company thereafter filed its motion for summary adjudication on its fifth and sixth causes of action for declaratory relief seeking, among other things, a determination that Jasmine held no proprietary interest in the JSLIP algorithm, which was one of the core technologies Jasmine asserts was misappropriated by the Company. The motion was denied on

## **Table of Contents**

November 14, 2007. However, in its opposition, Jasmine admitted that JSLIP had been taken from the work of a third party and is embodied in patents held by the University of California and Cisco Systems. These admissions are significant with respect to both Jasmine's assertion of trade secret rights and any damages claimed by Jasmine.

In addition, on December 28, 2001 and January 7, 2002, the trial court issued a preliminary injunction precluding Jasmine from using, disclosing or disseminating the contents of a privileged communication between certain officers of the Company and its counsel. The order granting injunctive relief was reversed by the California Court of Appeal, but review was granted by the California Supreme Court on a grant and hold basis pending the Court's decision on a case involving closely related issues, *Rico v. Mitsubishi Motors Corp.* (2004) 116 Cal.App.4th 51. The effect of the California Supreme Court's grant of review was to depublish the Court of Appeal's decision. On December 13, 2007, the California Supreme Court ruled in the *Rico v. Mitsubishi* case in a manner consistent with the position asserted by the Company that attorney work product and attorney-client privileges are not waived by inadvertent disclosure of a privileged communication, and that any party receiving such information (i) is required to notify opposing counsel immediately; and (ii) may not read such document more closely than is necessary to determine it is privileged. *Rico v. Mitsubishi Motors Corp.* (2007) 42 Cal.4th 807. Following its decision in *Rico v. Mitsubishi*, on April 23, 2008, the California Supreme Court issued an order dismissing the Company's petition for review. As a result the decision of the Court of Appeal, which remains unpublished, became final.

The case then proceeded in the trial court. On January 13, 2009, the Court granted a motion disqualifying the Company's counsel and the Company engaged new counsel. The trial date was continued from March 2, 2009 to May 4, 2009. The claims against the three Company officers were dropped. The parties engaged in extensive discovery. Motions for summary judgment and/or summary adjudication filed by the parties were heard on February 3, 2009 and were all denied except for Jasmine's motions directed to the Company's declaratory judgment claims, which were granted. On June 3, 2009, the Court granted the Company's motion to dismiss Jasmine's Second Amended Complaint with prejudice, for lack of standing. The Court also entered a 60-day stay of the cross claims to allow Jasmine to seek appellate review.

*CSIRO Litigation.* As of January 2007, Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO) was involved in several patent litigations in the Eastern District of Texas (the Non-Marvell CSIRO Litigations), in which it has accused a number of wireless LAN system manufacturers, including some of the Company's customers, of infringing CSIRO's patent, U.S. Patent No. 5,487,069 (the '069 Patent). CSIRO's claims of infringement relate to wireless standards known as IEEE 802.11a, 802.11g and 802.11n. As a result of CSIRO's claims for patent infringement, a number of the Company's customers have sought indemnification from the Company. In response to these demands for indemnification, the Company has acknowledged the demands and incurred costs in response to them.

On May 4, 2007, Marvell Semiconductor, Inc. (MSI), Marvell Asia Pte., Ltd. (MAPL), Marvell International Ltd. (MIL) (collectively, the Company's Subsidiaries) filed an action in the United States District Court for the Eastern District of Texas (the Marvell CSIRO Litigation) seeking a declaratory judgment against CSIRO that the '069 Patent is invalid and unenforceable and that the Company's Subsidiaries and the Company's customers do not infringe the '069 Patent. The complaint also seeks damages and a license that also covers the Company's customers on reasonable and non-discriminatory terms in the event the Company's 802.11a/g/n wireless LAN products are found to infringe and the '069 Patent is found to be valid and enforceable.

On December 5, 2007, CSIRO filed its answer to the complaint filed by the Company's Subsidiaries, as well as counterclaims for willful and deliberate infringement of the '069 Patent. CSIRO's counterclaims included a claim for monetary damages, including triple damages based on its allegation of willful and deliberate infringement, attorneys' fees and injunctive relief. On April 10, 2008, the Company's Subsidiaries filed a First Amended Complaint and First Amended Reply to CSIRO's Answer and Counterclaims. On April 23, 2008, CSIRO filed its Answer and Counterclaims to the First Amended Complaint. On May 12, 2008, the Company's Subsidiaries filed a Reply and Affirmative Defenses to CSIRO's amended counterclaims.

On May 22, 2008, the Company's Subsidiaries filed a motion for summary judgment seeking to invalidate the '069 Patent on indefiniteness grounds. The motion was denied on August 14, 2008. The claim construction hearing was held on June 26, 2008 and the claim construction order was issued on August 14, 2008. The trial for the Marvell CSIRO Litigation is scheduled to commence on May 10, 2010.

*Shareholder Derivative Litigation.* Between June 22, 2006 and August 2, 2006, three purported shareholder derivative actions were filed in the United States District Court for the Northern District of California. Each of these lawsuits named the Company as a nominal defendant and a number of the Company's current and former directors and officers as defendants. Each lawsuit sought to recover damages purportedly sustained by the Company in connection with its option granting processes, and sought certain corporate governance and internal control changes. Pursuant to orders of the court dated August 17 and October 17, 2006, the three actions were

## **Table of Contents**

consolidated as a single action, entitled *In re Marvell Technology Group Ltd. Derivative Litigation*. The plaintiffs filed an amended and consolidated complaint on November 1, 2006. On or about March 5, 2008, the parties entered into a memorandum of understanding that tentatively settles and resolves the consolidated action. The terms of the memorandum of understanding include certain corporate governance enhancements and an agreement by the Company to pay up to \$16 million in plaintiffs' attorneys' fees. This tentative settlement of the consolidated derivative actions requires court approval before it becomes final. The Company accrued the \$16 million settlement amount in the fourth quarter of fiscal 2008. On March 20, 2009, the parties submitted formal settlement documentation to the Court seeking preliminary and thereafter final approval for the settlement, at which time payment of the settlement amount will be made. After a hearing held on May 8, 2009, the Court granted preliminary approval of the settlement by written order on May 21, 2009. The hearing for the final court approval is set for July 17, 2009.

*Class Action Securities Litigation.* Between October 5, 2006 and November 13, 2006, four putative class actions were filed in the United States District Court for the Northern District of California against the Company and certain of its current and former officers and directors. The complaints allege that the Company and certain of its current and former officers and directors violated the federal securities laws by making false and misleading statements and omissions relating to the grants of stock options. The complaints seek, on behalf of persons who purchased the Company's common shares during the period from October 3, 2001 to October 3, 2006, unspecified damages, interest, and costs and expenses, including attorneys' fees and disbursements. On February 2, 2007, these four putative class actions were consolidated as a single action entitled *In re Marvell Technology Group Ltd. Securities Litigation*. On August 16, 2007, plaintiffs filed a consolidated class action complaint. On October 18, 2007, the Company filed a motion to dismiss the consolidated class action complaint. On September 29, 2008, the District Court issued an order granting in part and denying in part Marvell's motion to dismiss the consolidated class action complaint. The District Court gave the plaintiffs thirty days to amend their complaint. Plaintiffs elected not to amend the complaint and instead have chosen to proceed with the claims that the court did not dismiss. The Company filed its answer to the complaint on January 12, 2009. On June 9, 2009, the parties entered into a stipulation of settlement to resolve the matter. The settlement provides for a payment by the Company to the class of \$72 million. This class action settlement is subject to preliminary and then, following notice to class members, final approval by the District Court.

*Wi-LAN Litigation.* On December 21, 2006, MSI received a letter from Wi-LAN, Inc. ( "Wi-LAN" ) accusing MSI of infringing five United States patents and one Canadian patent allegedly owned by Wi-LAN. On October 31, 2007, Wi-LAN sued two groups of system and chip manufacturers in the United States District Court for the Eastern District of Texas, in both cases naming MSI as a defendant and alleging patent infringement. In the first case, Wi-LAN alleges that defendants infringe two patents that allegedly relate to the 802.11 wireless standard. In the second case, Wi-LAN alleges that defendants infringe the same two patents asserted in the first case, and in addition Wi-LAN alleges that some of the defendants in the second case infringe a third patent that allegedly relates to Asymmetric Digital Subscriber Line ( "ADSL" ) technology. In the second case, MSI is not accused of infringing the ADSL patent.

On May 27, 2008, defendants in both cases jointly moved to consolidate the co-pending related cases and permit claims involving suppliers of the products to be litigated first. Wi-LAN filed its opposition on June 18, 2008. On September 10, 2008, the Court granted the defendant's motion to consolidate both actions but denied as premature having the defendant suppliers' case proceed first. On December 12, 2008, Wi-LAN filed a motion for leave to file a supplemental first amended complaint to add a fourth patent, U.S. Pat. No. 6,549,759 (the "759 Patent" ). Defendants opposed this motion on January 23, 2009. The Court issued an order on February 3, 2009, granting Wi-LAN's motion to add the 759 Patent. The Claim Construction Hearing is scheduled for September 1, 2010, and the trial is set to begin on January 4, 2011. MSI believes it does not infringe any valid and enforceable claims of the asserted Wi-LAN patents and will vigorously defend itself in these matters.

On November 5, 2007, MSI filed a complaint against Wi-LAN in the United States District Court for the Northern District of California asking the Court to find that it does not infringe three patents that Wi-LAN asserted against MSI in its December 21, 2006 letter. Two of these patents were not asserted against MSI in either of the two Texas litigations. These patents allegedly relate to Wideband Code Division Multiple Access technology. MSI also asked in the alternative that the Court find the patents invalid. Wi-LAN has filed a motion to dismiss, and the Company filed its opposition to that motion on June 9, 2008. On June 19, 2008, Marvell settled this declaratory judgment action. This settlement does not affect or in any way involve the ongoing litigations brought by Wi-LAN in the Eastern District of Texas.

On December 10, 2008, MSI and MAPL filed a complaint against Wi-LAN in the United States District Court for the Northern District of California asking the Court to find that MSI and MAPL do not infringe the 759 Patent that Wi-LAN asserted against the Company's products. The 759 Patent allegedly relates to products compliant with IEEE 802.11, 802.16 and/or Bluetooth standards. MSI and MAPL also asked, in the alternative, that the Court find the patents are invalid and unenforceable. On January 15, 2009, Wi-LAN filed a motion to dismiss a related complaint by Intel for lack of personal jurisdiction, subject matter jurisdiction and improper

**Table of Contents**

venue and to transfer to first filed forum (E.D. of Texas). The parties stipulated to extend the time of Wi-LAN to respond to the complaint until ten days after the Court ruled on Wi-LAN's motion to dismiss or transfer the Intel case. On May 4, 2009, the Court held a hearing on Wi-LAN's motion, denied the motion to dismiss and took the motion to transfer under advisement.

*Carnegie Mellon Litigation.* On March 6, 2009, Carnegie Mellon University (CMU) filed a complaint in the United States District Court for the Western District of Pennsylvania naming MSI and the Company and alleging patent infringement. CMU has asserted two patents (U.S. Patent Nos. 6,201,839 and 6,438,180) purportedly relating to hard disk drive products that incorporate read-channel integrated circuits. On June 1, 2009, MSI and the Company filed their answers and MSI filed counterclaims to the complaint seeking declaratory judgments of non-infringement and invalidity as to both of the asserted patents. MSI and the Company intend to contest this action vigorously. Because this action is in the very early stages, the Company is unable to predict the outcome of this litigation at this time.

*PACid Patent Litigation.* On March 30, 2009, The PACid Group, LLC filed a complaint in the United States District Court for the Eastern District of Texas, case no. 6:09-cv-00143 LED, which named MSI, Marvell Technology, Inc. (MTI), Marvell Semiconductor, Ltd. (MSL), the Company and fifteen other companies as defendants. The complaint alleged infringement of two patents purportedly relating to encryption: U.S. Patent Nos. 5,963,646 and 6,049,612. On May 22, 2009, MSI filed its answer and counterclaims to the complaint. On June 1, 2009, MTI, MSL and the Company were dismissed without prejudice. MSI disputes PACid's claims and MSI intends to contest this action vigorously. Because this action is in the very early stages, the Company is unable to predict the outcome of this litigation at this time.

*General.* The Company is also party to other legal proceedings and claims arising in the normal course of business. The legal proceedings and claims described above could result in substantial costs and could divert the attention and resources of the Company's management. Although the legal responsibility and financial impact with respect to these proceedings and claims cannot currently be ascertained, an unfavorable outcome in such actions could have a material adverse effect on the Company's cash flows. Litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling in litigation could require the Company to pay damages or one-time license fees or royalty payments, which could adversely impact gross margins in future periods, or could prevent the Company from manufacturing or selling some of its products or limit or restrict the type of work that employees involved in such litigation may perform for the Company. There can be no assurance that these matters will be resolved in a manner that is not adverse to the Company's business, financial condition, results of operations or cash flows.

**Note 10. Stock-Based Compensation**

The Company adopted SFAS No. 123 (revised 2004), Share Based Payment (SFAS 123R) in its fiscal year beginning January 29, 2006. SFAS 123R requires the measurement and recognition of compensation expense for all share-based awards to employees and directors, including employee stock options, restricted stock units and employee stock purchase rights based on estimated fair values.

The following table presents details of stock-based compensation expenses by functional line item (in thousands):

	<b>Three Months Ended</b>	
	<b>May 2, 2009</b>	<b>May 3, 2008</b>
Cost of goods sold	\$ 4,116	\$ 3,073
Research and development	21,737	29,932
Selling and marketing	3,711	7,348
General and administrative	2,084	4,873
	<b>\$ 31,648</b>	<b>\$ 45,226</b>

Stock-based compensation of \$1.4 million and \$3.6 million was capitalized in inventory as of May 2, 2009 and January 31, 2009, respectively.



**Table of Contents**

The following assumptions were used for each respective period to calculate the weighted average fair value of each option award on the date of grant using the Black-Scholes option pricing model:

	Stock Option Plans Three Months Ended		Employee Stock Purchase Plan Three Months Ended	
	May 2, 2009	May 3, 2008	May 2, 2009	May 3, 2008
Volatility	51%	44%	45%	45%
Expected life (in years)	4.6	5.2	1.3	1.3
Risk-free interest rate	1.7%	3.4%	1.8%	4.7%
Dividend yield				
Weighted average fair value	\$ 3.90	\$ 4.91	\$ 5.39	\$ 6.06

In developing estimates used in the adoption of SFAS 123R, the Company established the expected term for employee options and awards, as well as expected forfeiture rates, based on the historical settlement experience and after giving consideration to vesting schedules. Expected volatility under SFAS 123R was developed based on the average of the Company's historical daily stock price volatility. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of our stock options. SFAS 123R also requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates.

**Note 11. Shareholders' Equity****Stock plans**

In April 1995, the Company adopted the 1995 Stock Option Plan (the "Option Plan"). The Option Plan, as amended, had 352,560,400 common shares reserved for issuance thereunder as of May 2, 2009. Options granted under the Option Plan generally have a term of ten years and generally must be issued at prices not less than 100% and 85% for incentive and nonqualified stock options, respectively, of the fair market value of the stock on the date of grant. Incentive stock options granted to shareholders who own greater than 10% of the outstanding stock are for periods not to exceed five years and must be issued at prices not less than 110% of the fair market value of the stock on the date of grant. The options generally vest 20% one year after the vesting commencement date, and the remaining shares vest one-sixtieth per month over the remaining 48 months. Options granted under the Option Plan prior to March 1, 2000 may be exercised prior to vesting and the exercised shares remain unvested until vested in accordance with the terms of the grant. The Company has the right to repurchase such shares at their original purchase price if the optionee is terminated from service prior to vesting. Such right expires as the options vest over a five-year period. Options granted under the Option Plan subsequent to March 1, 2000 may only be exercised upon or after vesting.

In August 1997, the Company adopted the 1997 Directors' Stock Option Plan (the "1997 Directors' Plan"). Under the 1997 Directors' Plan, an outside director was granted an option to purchase 30,000 common shares upon appointment to the Company's Board of Directors. These options vested 20% one year after the vesting commencement date and remaining shares vest one-sixtieth per month over the remaining 48 months. An outside director was also granted an option to purchase 6,000 common shares on the date of each annual meeting of the shareholders. These options vested one-twelfth per month over 12 months after the fourth anniversary of the vesting commencement date. Options granted under the 1997 Directors' Plan could be exercised prior to vesting. The 1997 Directors' Plan was terminated in October 2007.

In October 2007, the Company adopted the 2007 Directors' Stock Incentive Plan (the "2007 Directors' Plan"). The 2007 Directors' Plan had 750,000 common shares reserved for issuance thereunder as of May 2, 2009. Under the 2007 Directors' Plan, an outside director is granted an option to purchase 50,000 common shares upon appointment to the Company's Board of Directors. These options vest 1/3<sup>rd</sup> on the one year anniversary of the date of grant and 1/3<sup>rd</sup> of the shares on each anniversary thereafter. An outside director who has served on the Company's Board of Directors for the prior six months is also granted an option to purchase 12,000 common shares on the date of each annual meeting of the Company's shareholders. These options vest 100% on the earlier of the date of the next annual general meeting of shareholders or the one year anniversary of the date of grant.

Under the Option Plan and the 2007 Directors' Plan, the Company may also grant restricted stock awards, which may be subject to vesting, and stock unit awards, which are denominated in shares of stock, but may be settled in cash or tradable shares of the Company's common shares upon vesting, as determined by the Company at the time of grant.

**Employee stock purchase plan**

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

In June 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan, as amended, had 49,871,612 common shares reserved for issuance thereunder as of May 2, 2009. Under the Purchase Plan, employees are granted the right to purchase common shares at a price per share that is 85% of the lesser of the fair market value of the shares at (i) the participant's entry date into the two-year offering period, or (ii) the end of each six-month purchase period within the offering period. Participants purchase stock using payroll deductions, which may not exceed 20% of their total cash compensation. The

**Table of Contents**

Purchase Plan additionally contains a reset and a rollover provision under which if the price on any purchase date is less than the price on the date of original enrollment, then the existing purchase period shall immediately cease upon purchase and a new two-year purchase period shall commence. Effective on August 20, 2007, offering and purchase periods begin on December 8 and June 8 of each year. Included in the Purchase Plan is a limitation on the number of shares that may be purchased in the event that the market price of the Company's common shares decreases by more than 25% from one purchase date to the next. In the event the share limitation is triggered, the number of shares an employee may purchase on the subsequent purchase date may not exceed 75% of the number the employee could have purchased at 85% of the market price on the earlier purchase date. This limitation was triggered in connection with the June 2008 purchase period, which ended in December 2008, and remained in effect as of May 2, 2009.

For the three months ended May 2, 2009, the Company recognized \$7.4 million of stock-based compensation expense related to the activity under the Purchase Plan. The Company did not issue any shares under the Purchase Plan in the three months ended May 2, 2009. As of May 2, 2009, there was \$15.6 million of unrecognized compensation cost related to the Purchase Plan.

Stock option activity under the Company's stock option plans for the three months ended May 2, 2009 is summarized below (in thousands, except per share amounts):

	<b>Options Outstanding (In thousands)</b>	<b>Weighted Average Exercise Price</b>
Balance at January 31, 2009	85,054	\$ 10.81
Options granted	276	\$ 8.90
Options forfeited/canceled/expired	(1,703)	\$ 16.67
Options exercised	(878)	\$ 4.64
Balance at May 2, 2009	82,749	\$ 10.75
Vested or expected to vest at May 2, 2009	78,890	\$ 10.76
Exercisable at May 2, 2009	52,449	\$ 9.99

Included in the preceding table are options for 2,073,800 common shares granted to certain officers at exercise prices ranging between \$6.84 and \$24.80 that will become exercisable only upon the achievement of specified annual earnings per share targets or achievement of certain operating performance criteria through fiscal 2014.

The aggregate intrinsic value and weighted average remaining contractual term of options vested and expected to vest at May 2, 2009 was \$194.8 million and 5.7 years, respectively. The aggregate intrinsic value and weighted average remaining contractual term of options exercisable at May 2, 2009 was \$144.5 million and 4.2 years, respectively. The aggregate intrinsic value is calculated based on the Company's closing stock price for all in-the-money options as of May 2, 2009.

The aggregate intrinsic value and weighted average remaining contractual term of restricted stock units vested and expected to vest as of May 2, 2009 was \$43.4 million and 1.4 years, respectively.

Included in the table below is activity related to restricted stock units:

	<b>Restricted Stock Units Outstanding</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance at January 31, 2009	6,499	\$ 9.58

# Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

Granted	7	\$	8.64
Vested	(1,971)	\$	11.74
Canceled/Forfeited	(162)	\$	10.31
Balance at May 2, 2009	4,373	\$	8.25

The Company's current practice is to issue new shares to satisfy share option exercises. As of May 2, 2009, compensation costs related to nonvested awards not yet recognized amounted to \$235.2 million. The unamortized compensation expense for stock options and restricted stock will be amortized on a straight-line basis and is expected to be recognized over a weighted-average period of 2.9 years and 2.3 years, respectively.

## **Table of Contents**

The total tax benefit attributable to options exercised for the three months ended May 2, 2009 was \$29,000 as reported on the condensed consolidated statements of cash flows in financing activities. Such excess tax benefits represent the reduction in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised in current and prior periods.

### **Note 12. Income Taxes**

For the three months ended May 2, 2009 and May 3, 2008, the Company's effective tax rate was an income tax expense of 1.8% and 10.0%, respectively. The income tax provision for these periods was affected by non-tax-deductible expenses such as stock-based compensation expense, amortization of acquired intangibles and accrual of unrecognized tax benefits, interest and penalties associated with unrecognized tax positions. In addition, the effective tax rate for the three months ended May 2, 2009 was impacted by a pretax loss for the current quarter which required the Company to exclude losses in tax jurisdictions for which no benefit would be recognized.

The Company's total unrecognized tax benefits as of May 2, 2009 and May 3, 2008 were \$112.6 million and \$114.3 million, respectively. The Company also recorded a FIN 48 liability for potential interest and penalties of \$23.6 million and \$10.8 million, respectively, as of May 2, 2009. For the three months ended May 2, 2009, the provision for income taxes was reduced by \$4.3 million because, in several foreign jurisdictions, the statute of limitations lapsed for uncertain tax positions. If recognized, all of the FIN 48 liabilities recorded to date, except the portion attributable to the unrealized foreign exchange gains and losses, will impact the effective tax rate.

The Company conducts business globally and, as a result, one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is subject to examination by tax authorities throughout the world, including such major jurisdictions as Singapore, Japan, Taiwan, China, India, Germany, Israel, Netherlands, Switzerland, the United Kingdom, Canada, Malaysia and the United States. The Company is subject to non-U.S. income tax examinations for years beginning with fiscal year 2002 and for U.S. income tax examinations beginning with fiscal year 2006. The U.S. tax authorities are reviewing employment taxes with regard to the re-measured stock options and have proposed audit assessments for calendar years 2003 through 2006 for which the U.S. subsidiary filed a protest with regard to a portion of the assessment. The Company believes that it has adequately provided for all issues related to these examinations, and the ultimate disposition of these matters is unlikely to have a material adverse affect on the Company's consolidated financial position.

### **Note 13. Related Party Transactions**

On August 19, 2005, through its subsidiaries MSI and MIL, the Company entered into a License and Manufacturing Services Agreement with C2 Microsystems, Inc. ( "C2Micro License Agreement" ). The C2Micro License Agreement has substantially similar terms as other license and manufacturing services agreements of the Company with other third parties for similar technology. The Company recognized none and \$1.2 million of revenue under the C2Micro License Agreement during the three months ended May 2, 2009 and May 3, 2008, respectively. As of May 2, 2009, the Company had a receivable of \$1.4 million. Dr. Sehat Sutardja and Weili Dai, through their ownership and control of Estopia LLC ( "Estopia" ), are indirect shareholders of C2Micro. Kuo Wei (Herbert) Chang, a member of the Company's board of directors, is a member of the board of directors of C2 Microsystems and, through his ownership and control of C-Squared venture entities, is also an indirect shareholder of C2 Microsystems. Dr. Pantas Sutardja, the Company's Vice President, Chief Technology Officer, and Chief Research and Development Officer, is also a shareholder of C2 Microsystems.

On January 8, 2007, the Company, through MIL, entered into a Library/IP/Software Evaluation License Agreement (the "Evaluation License Agreement") with VeriSilicon Holdings Co., Ltd. ( "VeriSilicon" ). The Evaluation License Agreement has no consideration. The Company also incurred \$2,000 and \$66,000 of royalty expense from VeriSilicon under a core license agreement assumed from its acquisition of the semiconductor design business of UTStarcom, Inc. during the three months ended May 2, 2009 and May 3, 2008, respectively. On March 30, 2009, the Company entered into an addendum to a technology license agreement with Verisilicon. The Company recorded a license fee of \$0.5 million and maintenance fees of \$80,000 in the three months ended May 2, 2009. Weili Dai's brother (and Dr. Sehat Sutardja's brother-in-law) is the Chairman, President and Chief Executive Officer of VeriSilicon. Ms. Dai is also a shareholder of VeriSilicon.

On September 28, 2007, the Company, through MIL, entered into a Master Technology Agreement (the "Technology Agreement") with Sonics, Inc. ( "Sonics" ), pursuant to which the Company licensed technology from Sonics. The Technology Agreement has substantially similar terms as other license agreements of the Company with other third parties. The Company paid

## **Table of Contents**

\$0.1 million under the Technology Agreement for the license and related maintenance during fiscal 2009. Kuo Wei (Herbert) Chang, a member of the Company's Board of Directors, serves as a member of the board of directors of Sonics and has a direct and/or indirect ownership interest in the equity of Sonics. There was no expense incurred related to the Technology Agreement during the three months ended May 2, 2009 and May 3, 2008.

On October 31, 2007, the Company entered into a License Agreement with Vivante Corporation (Vivante). This License Agreement has substantially similar terms as the Company would expect to obtain for license agreements with other third parties for similar technology. The Company recorded \$0.2 million of expense during the three months ended May 3, 2008 in connection with this License Agreement with Vivante. On August 5, 2008, the Company entered into a Technology License Agreement with Vivante. This Technology License Agreement, as amended, also has substantially similar terms as the Company would expect to obtain for license agreements with other third parties for similar technology. The Company recorded \$2.0 million for the license fee and \$0.2 million of maintenance during fiscal 2009, respectively, in connection with this Technology License Agreement. On April 16, 2009, the Company entered into an amendment to the Technology License Agreement with Vivante. The Company recorded \$1.0 million for the license fee and \$70,000 of maintenance during the three months ended May 2, 2009, respectively, in connection with the amendment to the Technology License Agreement. Dr. Sehat Sutardja and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of Vivante. In addition, Dr. Sehat Sutardja is also a direct shareholder and Chairman of the board of directors of Vivante. Weili Dai's brother (and Dr. Sehat Sutardja's brother-in-law) is the Chief Executive Officer of Vivante. Kuo Wei (Herbert) Chang, a member of the Company's Board of Directors, through his ownership and control of C-Squared venture entities, is also an indirect shareholder of Vivante.

### **Note 14. Subsequent Event**

#### *Shareholder Derivative Litigation*

On May 21, 2009, the United States District Court for the Northern District of California issued an order preliminarily approving the settlement. A hearing to determine whether the court should issue an order finally approving the proposed settlement has been scheduled for July 17, 2009.

#### *Class Action Securities Litigation*

On June 9, 2009, the Company entered into an agreement to resolve a shareholder class action lawsuit filed against the Company and certain of its former and current officers and directors relating to the Company's historic stock option granting practices. The settlement provides for a payment by the Company to the class of \$72 million. The class action settlement is subject to preliminary and then, following notice to class members, final approval by the United States District Court for the Northern District of California.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. These statements include, without limitation, statements regarding our expectations, beliefs, intentions or strategies regarding the future. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results to differ materially from those implied by the forward-looking statements. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, can, and similar expressions identify such forward-looking statements. These are statements that relate to future periods and include statements relating to our anticipation that the rate of new orders and shipments will vary significantly from quarter to quarter; industry trends; our anticipation that the total amount of sales through distributors will increase in future periods; our expectation that a significant percentage of our sales will continue to come from direct sales to key customers; our expectations regarding the number of days in inventory, inventory levels and levels of accounts receivable; our expectations regarding competition; our expectation regarding decreases in average selling prices; our continued efforts relating to the protection of our intellectual property; our expectations regarding the amount of customer concentration in the future; our expectations regarding the amount of our future sales in Asia; our expectation regarding the effect of auction rate securities on our working capital needs or other requirements; our expected results, cash flows, and expenses, including those related to research and development, sales and marketing and general and administrative; our intention to make acquisitions, investments, strategic alliances and joint ventures; our expectations regarding revenue in the second quarter of fiscal 2010 compared with the revenue in the first quarter of fiscal 2010; our expectations regarding the impact of legal proceedings and claims; our expectations regarding the adequacy of our capital resources, capital expenditures, investment requirements and commitments to meet our capital needs for the next 12 months; our plan to attract and retain highly skilled personnel; our expectations regarding the growth in business and operations; our plan regarding*



## **Table of Contents**

*forward exchange contracts; the effect of recent accounting pronouncements and changes in taxation rules; our plan of sourcing certain legacy application processor cellular and handset inventory from Intel; and our plan to reduce the global workforce. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. Factors that could cause actual results to differ materially from those predicted, include but are not limited to, the impact of the recent worldwide financial crisis; the international conflict and continued economic volatility in either domestic or foreign markets; the outcome and impact of the litigation related to our historic stock option granting practices; our dependence upon the hard disk drive industry which is highly cyclical; our ability to scale our operations in response to changes in demand for existing or new products and services; our maintenance of an effective system of internal controls; our dependence on a small number of customers; our ability to develop new and enhanced products; our success in integrating businesses we acquire and the impact such acquisitions may have on our operating results; our ability to estimate customer demand accurately; the success of our strategic relationships with customers; our reliance on independent foundries and subcontractors for the manufacture, assembly and testing of our products; our ability to manage future growth; the development and evolution of markets for our integrated circuits; our ability to protect our intellectual property; the impact of any change in our application of the United States federal income tax laws and the loss of any beneficial tax treatment that we currently enjoy; the impact of changes in international financial and regulatory conditions; the impact of changes in management; and the outcome of pending or future litigation and legal proceedings. Additional factors which could cause actual results to differ materially include those set forth in the following discussion, as well as the risks discussed in Part II, Item 1A, Risk Factors, and other sections of this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date hereof. Unless required by law, we undertake no obligation to update any forward-looking statements.*

## **Overview**

We are a leading global semiconductor provider of high-performance application-specific standard products. Our core strength of expertise is the development of complex System-on-a-Chip devices leveraging our extensive technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing and embedded ARM-based microprocessor integrated circuits. Our broad product portfolio includes devices for data storage, enterprise-class Ethernet data switching, Ethernet physical-layer transceiver handheld cellular, Ethernet-based wireless networking, personal area networking, Ethernet-based PC connectivity, control plane communications controllers, video-image processing and power management solutions. Our products serve diverse applications used in carrier, metropolitan, enterprise and PC-client data communications and storage systems. Additionally, we serve the consumer electronics market for the convergence of voice, video and data applications. We are a fabless integrated circuit company, which means that we rely on independent, third party contractors to perform manufacturing, assembly and test functions. This approach allows us to focus on designing, developing and marketing our products and significantly reduces the amount of capital we need to invest in manufacturing products.

Our sales have historically been made on the basis of purchase orders rather than long-term agreements. In addition, the sales cycle for our products is long, which may cause us to experience a delay between the time we incur expenses and the time revenue is generated from these expenditures. We anticipate that the rate of new orders may vary significantly from quarter to quarter. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and future quarters may be adversely affected.

Financial markets in the United States, Europe and Asia experienced extreme disruption in the second half of fiscal 2009, including, among other things, severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, volatile energy costs, increases in unemployment rates, and uncertainty about economic stability. In the third quarter of fiscal 2009, concerns related to the deterioration in the global financial and credit markets, including with respect to the availability and cost of credit, contributed to instability in worldwide capital and credit markets and diminished expectations for the U.S. and global economy. These conditions worsened in the fourth quarter of fiscal 2009 and, combined with uncertainty about the global economy in general, contributed to volatility of unprecedented levels and a further economic slowdown. Although governments have taken unprecedented actions in an attempt to alleviate the credit crisis, customers and consumers continued to be cautious with spending in order to conserve cash. This resulted in the slowing of orders from our direct OEM customers and distributors.

On March 5, 2009, in response to the challenging economic environment we announced the implementation of a plan to lower our overall costs and expenses. As a result of this plan and combined with certain cost reduction measures taken in the quarter ended January 31, 2009, we plan to reduce our global workforce by approximately 15%, or approximately 850 employees.



**Table of Contents**

Our fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2010 and fiscal 2009 are comprised of a 52-week period. In this Quarterly Report on Form 10-Q, we refer to the fiscal year ended February 2, 2008 as fiscal 2008, the fiscal year ended January 31, 2009 as fiscal 2009, and the fiscal year ending January 30, 2010 as fiscal 2010.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates, and such differences could affect the results of operations reported in future periods. For a description of our critical accounting policies and estimates, please refer to the Critical Accounting Policies and Estimates section of our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 31, 2009. There have been no material changes in any of our accounting policies during fiscal 2010.

**Results of Operations**

The following table sets forth information derived from our unaudited condensed consolidated statements of operations expressed as a percentage of net revenue:

	Three Months Ended	
	May 2, 2009	May 3, 2008
Net revenue	100.0%	100.0%
Operating costs and expenses:		
Cost of goods sold	49.4	48.4
Research and development and other	38.4	29.6
Selling and marketing	6.3	5.7
General and administrative	19.5	1.6
Amortization of acquired intangible assets	5.8	4.4
Restructuring	1.6	
Total operating costs and expenses	121.0	89.7
Operating income (loss)	(21.0)	10.3
Interest and other income (expense), net	(0.0)	0.3
Interest expense	(0.0)	(0.9)
Income (loss) before income taxes	(21.0)	9.7
Provision (benefit) for income taxes	0.4	1.0
Net income (loss)	(21.4)%	8.7%

**Three Months Ended May 2, 2009 and May 3, 2008***Net Revenue*

Three Months Ended		
May 2, 2009	May 3, 2008	% Change
(in thousands, except percentage)		

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

Net revenue	\$ 521,434	\$ 804,075	(35.2)%
-------------	------------	------------	---------

Net revenue is gross revenue, net of accruals for estimated sales returns and rebates. The decrease in net revenue for the three months ended May 2, 2009 compared to the net revenue for the three months ended May 3, 2008 reflects the negative impacts of the global economic slowdown, which we experienced across each of our product families. Within our storage businesses, a reduction in consumer spending on PCs resulted in lower demand from our hard disk drive customers. Within cellular handheld, wireless and printer semiconductor solution offerings, our products such as mobile phones, gaming devices, and printers were adversely impacted by lower consumer spending as compared to the previous year. We currently expect that revenue in the second quarter of fiscal 2010 will increase moderately from the level of revenue that we reported in the first quarter of fiscal 2010 as we are beginning to see some early signs of recovery in the economic environment and the start of the ramp of some new design wins.

**Table of Contents**

Historically, a relatively small number of customers have accounted for a significant portion of our revenue. For the three months ended May 2, 2009, two customers each represented more than 10% of our net revenue, and totaled 39% of our net revenue. For the three months ended May 3, 2008, one customer represented more than 10% of our net revenue, for a total of 21% of our net revenue. No distributors accounted for more than 10% of our net revenue in the three months ended May 2, 2009 and May 3, 2008, respectively.

Because we sell our products to many OEM manufacturers who have manufacturing operations located in Asia, a significant percentage of our sales are made to customers located outside of the United States. Sales to customers located in Asia represented 88% and 84% of our net revenue for the three months ended May 2, 2009 and May 3, 2008, respectively. The rest of our sales are to customers located in the United States and other geographic regions. We expect that a significant portion of our revenue will continue to be represented by sales to our customers in Asia. Substantially all of our sales to date have been denominated in U.S. dollars.

*Cost of Goods Sold*

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(in thousands, except percentages)		
Cost of goods sold	\$ 257,630	\$ 388,842	(33.7)%
% of net revenue	49.4%	48.4%	

Cost of goods sold consists primarily of the costs of manufacturing, assembly and test of integrated circuit devices and related overhead costs, product warranty costs, royalties and compensation and associated costs relating to manufacturing support, logistics and quality assurance personnel, including stock-based compensation, excess and obsolescence provisions and purchase accounting adjustments. Cost of goods sold as a percentage of revenue for the three months ended May 2, 2009 compared to the three months ended May 3, 2008 increased due to higher warranty costs, the higher portion of overhead in cost due to the lower production levels and higher stock-based compensation expenses as less is capitalized due to the reduction in inventory levels. Partially offsetting the increase in cost of goods sold as a percentage of revenue was an improved mix of products sold and sales of product previously written down. Our cost of goods sold as a percentage of revenue may fluctuate in future periods due to, among other things, changes in the mix of products sold, the timing of production ramps of new products, increased pricing pressures from our customers and competitors, particularly in the consumer product markets that we are targeting, charges for obsolete or potentially excess inventory, changes in the costs charged by our manufacturing and test subcontractors, the introduction of new products with lower margins and product warranty costs.

*Research and Development*

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(in thousands, except percentages)		
Research and development	\$ 200,249	\$ 238,475	(16.0)%
% of net revenue	38.4%	29.6%	

Research and development expense consists primarily of compensation and associated costs relating to development personnel, including stock-based compensation, mask prototype costs, contracted development work costs, net of development fees received from customers, depreciation and amortization expense, patent investigation and filings fees and allocated occupancy costs for these operations. The decrease in research and development expense for the three months ended May 2, 2009 compared to the three months ended May 3, 2008 of \$38.2 million was primarily due to lower salary and related expenses of \$15.7 million as a result of lower overall headcount from cost reduction efforts. In addition, we received the benefit of \$5.3 million of research and development funding from customers for development work in the three months ended May 2, 2009. Stock-based compensation decreased \$8.2 million due to older options with relatively higher valuations becoming fully vested along with lower expense due to differences in the vesting schedule of replacement grants versus tendered options as a result of our option exchange program during the fourth quarter ended January 31, 2009. Other decreases in research and development expenses of approximately \$8.1 million related to lower discretionary spending due to tight cost controls including evaluation boards and engineering supplies, travel and outside professional



**Table of Contents**

services. We currently expect research and development expense during the second quarter ending August 1, 2009 will moderately decline from the level of expense reported during the first quarter ended May 2, 2009 due to the effects of our continued focus on cost controls.

*Selling and Marketing*

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(in thousands, except percentages)		
Selling and marketing	\$ 32,646	\$ 46,088	(29.2)%
% of net revenue	6.3%	5.7%	

Selling and marketing expense consists primarily of compensation and associated costs relating to sales and marketing personnel, including stock-based compensation, sales commissions, promotional and other marketing expenses, and allocated occupancy costs for these operations. The decrease in selling and marketing expense in absolute dollars for the three months ended May 2, 2009 compared to the three months ended May 3, 2008 of \$13.4 million was primarily due to lower salary and related expenses of \$5.0 million due to lower overall headcount of sales and marketing personnel. Stock-based compensation decreased \$3.6 million as described above. Additionally, sales rep commissions decreased \$1.7 million due to the decrease in revenue and various other selling and marketing costs declined \$1.6 million due to cost control efforts. We currently expect that selling and marketing expense during the second quarter ending August 1, 2009 will moderately decline from the level of expense reported during the first quarter ended May 2, 2009 due to the continued focus on cost controls.

*General and Administrative*

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(in thousands, except percentages)		
General and administrative	\$ 101,496	\$ 12,951	683.7%
% of net revenue	19.5%	1.6%	

General and administrative expense consists primarily of compensation and associated costs relating to general and administrative personnel, including stock-based compensation, fees for professional services and allocated occupancy costs for these operations. The increase in general and administrative expense for the three months ended May 2, 2009 compared to the three months ended May 3, 2008 of \$88.5 million was primarily the result of a \$72.0 million legal settlement in connection with the class action securities litigation reflected in the three months ended May 2, 2009, the \$24.5 million of insurance recoveries for shareholder derivative, class action and related lawsuits received in the first quarter ended May 3, 2009. This was partially offset by a \$10.0 million settlement with the Securities and Exchange Commission investigation regarding our historical stock option granting practices and related accounting matters also recorded for the first quarter ended May 3, 2008. In addition, legal fees increased by approximately \$8.0 million due to increased litigation matters, including one of our cases ramping up for trial. Partially offsetting the increase in general and administrative expense was a decrease of \$2.8 million in stock-based compensation due to older options with relatively higher valuations becoming fully vested along with lower expense due to differences in the vesting schedule of replacement grants versus tendered options as a result of our option exchange program during the fourth quarter ended January 31, 2009 as described above. Additionally, salary and related costs decreased \$1.7 million due to the effects of cost reduction efforts. We currently expect that general and administrative expense during the second quarter ending August 1, 2009 will moderately decline from the level of expense reported during the first quarter ended May 2, 2009.

*Amortization of Acquired Intangible Assets*

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(in thousands, except percentages)		
Amortization of acquired intangible assets	\$ 30,356	\$ 35,247	(13.9)%

% of net revenue	5.8%	4.4%
------------------	------	------

**Table of Contents**

The decrease in amortization of acquired intangible assets for the three months ended May 2, 2009 compared to the three months ended May 3, 2008 was due to amortization of intangible assets from certain acquisitions being fully amortized and the effects of the write-off of certain purchased intangibles during the fourth quarter ended January 31, 2009.

*Restructuring*

	<b>Three Months Ended</b>		
	<b>May 2, 2009</b>	<b>May 3, 2008</b>	<b>% Change</b>
	<b>(in thousands, except percentages)</b>		
Restructuring	\$ 8,336	\$	100.0%
% of net revenue	1.6%		%

Restructuring charges included in operating expenses increased \$8.3 million in the three months ended May 2, 2009 compared to the three months ended May 3, 2008. During the first quarter ended May 2, 2009, in response to the challenging economic environment we implemented certain cost reduction measures that included reductions in workforce in all functions of the organization worldwide, impacting approximately 300 employees. As a result, a restructuring charge of \$8.3 million was recorded that consisted of \$7.4 million of severance and related employee benefits to the terminated employees and \$0.9 million for equipment and other related charges.

*Interest and Other Income (Expense), Net*

	<b>Three Months Ended</b>		
	<b>May 2, 2009</b>	<b>May 3, 2008</b>	<b>% Change</b>
	<b>(in thousands, except percentages)</b>		
Interest and other income (expense), net	\$ (72)	\$ 2,459	(102.9)%
% of net revenue	0.0%	0.3%	

Interest and other income (expense), net, consists primarily of interest earned on cash and cash equivalent balances and other realized and unrealized gains and losses including derivatives. The decrease in interest and other income for the three months ended May 2, 2009 compared to the three months ended May 3, 2008 was primarily due to a decrease in market interest rates as well as cumulative foreign exchange losses related to foreign tax reserves as a result of the strengthening of the U.S. dollar. The results for the three months ended May 3, 2008 reflect the effect of the reclassification of foreign exchange gains and losses related to uncertain tax positions from provision (benefit) for income taxes to interest and other income (expense), net.

*Interest Expense*

	<b>Three Months Ended</b>		
	<b>May 2, 2009</b>	<b>May 3, 2008</b>	<b>% Change</b>
	<b>(in thousands, except percentages)</b>		
Interest expense	\$ (88)	\$ (7,151)	(98.8)%
% of net revenue	0.0%	(0.9)%	

Interest expense consists primarily of interest paid on a term loan and capital lease obligations. The decrease in interest expense for the three months ended May 2, 2009 compared to the three months ended May 3, 2008 was primarily due to a decrease in interest expense as a result repayment of principal on the outstanding debt during the fourth quarter ended January 31, 2009.

*Provision for Income Taxes*

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(in thousands, except percentages)		
Provision for income taxes	\$ 2,018	\$ 7,841	(74.3)%
% of pre-tax income (loss)	1.8%	10.1%	



## **Table of Contents**

For the three months ended May 2, 2009, we recorded an income tax provision of \$2.0 million compared to an income tax provision of \$7.8 million for the three months ended May 3, 2008. The effective tax rates are influenced by non-tax-deductible expenses, such as stock-based compensation expense, amortization of acquired intangibles, and accounting for uncertain tax positions in accordance with Financial Accounting Standards Board, or FASB, Interpretation No. 48, Accounting for Uncertainty in Tax Positions, or FIN 48. For the three months ended May 2, 2009, the effective tax rate was impacted by a pretax loss which required us to exclude losses in tax jurisdictions for which no benefit would be recognized. For the three months ended May 2, 2009, the provision for income taxes was reduced by \$4.3 million because, in several foreign jurisdictions, the statute of limitations lapsed for uncertain tax positions.

## **Liquidity and Capital Resources**

Our principal source of liquidity as of May 2, 2009 consisted of \$1,083.7 million of cash, cash equivalents, restricted cash and short-term investments of which \$24.5 million is restricted for use in a legal settlement. Since our inception, we have financed our operations through a combination of sales of equity securities, debt financing and cash generated by operations.

### *Net Cash Provided by Operating Activities*

Net cash provided by operating activities was \$144.5 million for the three months ended May 2, 2009 compared to net cash provided by operating activities of \$130.2 million for the three months ended May 3, 2008. The increase in cash from operations in the three months ended May 2, 2009 was primarily due to significant improvements in working capital, including a decrease in inventories of \$106.3 million primarily due to our efforts to control our inventory levels as a result of the current economic environment. Accrued liabilities and other increased primarily due to a legal settlement in connection with the class action securities litigation. In addition, accounts payable increased by \$30.7 million due to efforts to extend payment periods to vendors. Finally, accrued employee compensation increased \$13.0 million due primarily to an increase in employee stock purchase plan contributions and prepaid and other assets decreased \$14.3 million due to a decrease in the receivable from one of our foundries and amortization of CAD licenses.

Significant working capital changes offsetting positive cash flows for the three months ended May 2, 2009 related to an increase in accounts receivable of \$63.3 million due primarily to the timing of revenue recorded as we experience much of the increase in revenue late in the quarter.

Significant working capital change contributing to positive cash flow in the three months ended May 3, 2008 was the decrease in inventories of \$55.9 million. The decrease in inventories was primarily due to the completion of contractual obligations under the original supply agreement with Intel as well as concentrated efforts to reduce inventory levels. Also contributing to the increase in cash flows was a decrease in prepaid expenses and other assets of \$32.5 million primarily due to the utilization of prepaid foundry capacity and prepaid wafers. In addition, accrued employee compensation increased \$16.9 million due primarily to an increase in employee stock purchase plan contributions and the timing of accrued salary.

Significant working capital changes offsetting positive cash flows in the three months ended May 3, 2008 included a decrease in accounts payable of \$63.1 million due to the timing of payments and a decrease in accrued liabilities and other of \$18.8 million attributable to decreased in accrued sales rebates and accrued legal fees. Accounts receivable increased \$38.2 million due primarily to higher revenues in the period. Restricted cash increased \$24.5 million due to proceeds from settlement with our directors and officers insurance carriers with the settlement requiring the proceeds to be used towards the consolidated derivative actions settlement and any future class action securities litigation settlement.

### *Net Cash Used in Investing Activities*

Net cash used in investing activities was \$12.7 million for the three months ended May 2, 2009 compared to \$16.9 million for the three months ended May 3, 2008. The net cash used in investing activities for the three months ended May 2, 2009 was due to purchases of property and equipment of \$3.4 million and purchases of technology licenses for \$9.3 million. The net cash used in investing activities for the three months ended May 3, 2008 was due to purchases of property and equipment of \$30.5 million and purchases of investments of \$10.1 million, partially offset by sales and maturities of investments of \$23.8 million.

**Table of Contents***Net Cash Provided by (Used in) Financing Activities*

Net cash used in financing activities was \$19,000 for the three months ended May 2, 2009 compared to net cash provided by financing activities of \$15.1 million for the three months ended May 3, 2008. For the three months ended May 2, 2009 and May 3, 2008, net cash used in financing activities was attributable to principal payments on debt obligations and capital leases partially offset by proceeds from the issuance of common shares under our stock option plans.

**Contractual Obligations and Commitments**

In connection with the acquisition of the communications and applications processor business of Intel, or the ICAP Business, we entered into a product supply agreement with Intel. Although we have met the contractual obligations under the original supply agreement and have transitioned certain products to our fabrication partners, we anticipate that we will continue to source certain legacy application processor cellular and handset inventory from Intel. As of May 2, 2009, we had no non-cancellable purchase orders under this arrangement.

In February 2005 and as amended in March 2005, we entered into an agreement with a foundry to reserve and secure foundry fabrication capacity for a fixed number of wafers at agreed upon prices for a period of five and a half years beginning on October 1, 2005. In return, we agreed to pay the foundry \$174.2 million over a period of 18 months. The amendment extended the term of the agreement and the agreed upon pricing terms until December 31, 2015. As of May 2, 2009, all payments (included in prepaid expenses and other current assets and other non-current assets) had been made and approximately \$155.0 million of the prepayment had been utilized. At May 2, 2009, there were no outstanding commitments under the agreement.

Under our manufacturing relationships with foundries, cancellation of all outstanding purchase orders are allowed but require repayment of all expenses incurred through the date of cancellation. As of May 2, 2009, the amount of open purchase orders to these foundries is approximately \$133.9 million.

As of May 2, 2009, we had approximately \$14.7 million of other outstanding non-cancelable purchase orders for capital purchase obligations.

The following table summarizes our contractual obligations as of May 2, 2009 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Period						Total
	Fiscal 2010 (remaining nine months)	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	There- after	
Contractual obligations:							
Operating leases	\$ 35,660	\$ 31,243	\$ 20,199	\$ 13,321	\$ 1,889	\$ 8,726	\$ 111,038
Capital lease obligations	1,563	2,084	522				4,169
Purchase commitments to foundries	133,923						133,923
Capital purchase obligations	14,694						14,694
Total contractual cash obligations	\$ 185,840	\$ 33,327	\$ 20,721	\$ 13,321	\$ 1,889	\$ 8,726	\$ 263,824

Included in operating lease commitments are lease payments for computer aided design software license agreements and airplane lease commitments.

In addition to the above commitments and contingencies, as of May 2, 2009, we recorded \$112.6 million of unrecognized tax benefits as liabilities in accordance with FIN 48. We also recorded a liability for potential interest and penalties of \$23.6 million and \$10.8 million, respectively, as of May 2, 2009. During the next 12 months, we believe that audit resolutions and the expiration of statute of limitations could potentially reduce our unrecognized tax benefit by up to \$36.5 million. However, this amount can change because we continue to have ongoing negotiations with various tax authorities throughout the year. At this time, we are unable to make a reasonably reliable estimate of the amount of payments in each year beyond 12 months due to uncertainties in the timing of tax audit outcomes.

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

*Prospective capital needs:* We believe that our existing cash, cash equivalents and marketable securities, together with cash generated from operations and from exercise of employee stock options will be sufficient to cover our working capital needs, capital expenditures, investment requirements and commitments for at least the next 12 months, including the \$72 million to be paid in

## **Table of Contents**

connection with the settlement of the shareholder class action lawsuit. Our capital requirements will depend on many factors, including our rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects, costs of making improvements to facilities and increases in operating expenses, which are all subject to uncertainty. However, we are named as defendants to several litigation actions and an unfavorable outcome in such actions could have a material adverse effect on our cash flows, including potential impacts to certain covenants under our existing credit agreement. To the extent that our existing cash, cash equivalents and investment balances and cash generated by operations are insufficient to fund our future activities, we may need to raise additional funds through public or private debt or equity financing. We may enter into additional acquisitions of businesses, assets, products, technologies or other strategic arrangements in the future, which could also require us to seek debt or equity financing. Additional equity financing or convertible debt financing may be dilutive to our current shareholders. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to our common shares.

### **Off-Balance Sheet Arrangements**

As of May 2, 2009, we did not have any material off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### **Recent Accounting Pronouncements**

In December 2007, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 141 (revised 2007), Business Combinations, or SFAS 141R. SFAS 141R changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, or IPRD, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. Although the adoption of SFAS 141R during the first quarter ended May 2, 2009 had no impact on our financial position and results of operations, we expect it will have an impact on our consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after the effective date of February 1, 2009.

In February 2008, the FASB issued FASB Staff Position, or FSP, No. FAS 157-2, Effective Date of FASB Statement No. 157, or FSP 157-2, to partially defer SFAS No. 157, Fair Value Measurements, or SFAS 157. FSP 157-2 defers the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The adoption of FSP 157-2 during the first quarter ended May 2, 2009 did not have a material impact on our financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, or SFAS 161. SFAS 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of SFAS 161 during the first quarter ended May 2, 2009 did not have a material impact on our financial position and results of operations.

In April 2008, the FASB issued FSP FAS 142-3, Determination of Useful Life of Intangible Assets, or FSP FAS 142-3. FSP FAS 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is not permitted. The adoption of FSP FAS 142-3 during the first quarter of fiscal 2010 did not have an impact on our financial position and results of operations.

In April 2009, the FASB issued three related Staff Positions: (i) FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly, or FSP FAS 157-4, (ii) FSP FAS 115-2 and FSP FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. Or FSP

**Table of Contents**

FAS 115-2 and FSP FAS 124-2, respectively, and (iii) FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, or FSP FAS 107-1 and APB 28-1, respectively, which will be effective for interim and annual periods ending after June 15, 2009. FSP FAS 157-4 provides guidance on how to determine the fair value of financial assets and liabilities under SFAS 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value. As a result, a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP FAS 115-2 and FSP FAS 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP FAS 107-1 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. We are currently evaluating the impact of adopting these Staff Positions.

In April 2009, the FASB issued FSP No. 141R-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP 141R-1. FSP 141R-1 amends the provisions in SFAS 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. The FSP eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS 141R and instead carries forward most of the provisions in SFAS 141R for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We expect that FSP 141R-1 could have an impact on our financial position and results of operations, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquired contingencies.

**Related Party Transactions**

On August 19, 2005, through our subsidiaries MSI and Marvell International Ltd., or MIL, we entered into a License and Manufacturing Services Agreement with C2 Microsystems, Inc., or the C2Micro License Agreement. The C2Micro License Agreement has substantially similar terms as other license and manufacturing services agreements with other third parties for similar technology. We recognized none and \$1.2 million of revenue under the C2Micro License Agreement during the three months ended May 2, 2009 and May 3, 2008, respectively. As of May 2, 2009, we had a receivable of \$1.4 million from C2 Microsystems. Dr. Sehat Sutardja and Weili Dai, through their ownership and control of Estopia LLC, are indirect shareholders of C2 Microsystems. Kuo Wei (Herbert) Chang, a member of our Board of Directors, is a member of the board of directors of C2 Microsystems and through his ownership, and control of C-Squared venture entities, is also an indirect shareholder of C2 Microsystems. Dr. Pantas Sutardja, our Vice President, Chief Technology Officer and Chief Research and Development Officer, is also a shareholder of C2 Microsystems.

On January 8, 2007, through our subsidiary MIL, we entered into a Library/IP/Software Evaluation License Agreement, or the Evaluation License Agreement, with VeriSilicon Holdings Co., Ltd. The Evaluation License Agreement has no consideration. We incurred \$2,000 and \$66,000 of royalty expense from VeriSilicon under a core license agreement assumed from our acquisition of the UTStarcom Business during the first quarter ended May 2, 2009 and May 3, 2009, respectively. This core license agreement had been assumed by VeriSilicon after its acquisition of certain assets from LSI. In March, 2009, we entered into an addendum to this core license agreement with VeriSilicon. We recorded a license fee of \$0.5 million and maintenance fees of \$80,000 for the three months ended May 2, 2009. Weili Dai's brother (and Dr. Sehat Sutardja's brother-in-law) is the Chairman, President and Chief Executive Officer of VeriSilicon. Ms. Dai is also a shareholder of VeriSilicon.

On September 28, 2007, through our subsidiary MIL, we entered into a Master Technology Agreement with Sonics, Inc., pursuant to which we have licensed technology from Sonics. The Master Technology Agreement has substantially similar terms as other license agreements with other third parties. We paid \$0.1 million for maintenance during fiscal 2009. Kuo Wei (Herbert) Chang, a member of our Board of Directors, serves as member of the board of directors of Sonics and has a direct and/or indirect ownership interest in the equity of Sonics. There was no expense incurred related to the Technology Agreement during the three months ended May 2, 2009 and May 3, 2008.

On October 31, 2007, we entered into a License Agreement with Vivante Corporation, or the Vivante Agreement. The Vivante Agreement has substantially similar terms as other license agreements with other third parties for similar technology. We recorded \$0.2 million of expense during fiscal 2009 in connection with the Vivante Agreement. In August 2008, we entered into a Technology License Agreement with Vivante. This Technology License Agreement, as amended, also has substantially similar terms as we would expect to obtain for license agreements with other third parties for similar technology. In January 2009, we entered into an agreement with Vivante to disclose certain cell libraries to Vivante at no additional cost. We recorded \$2.0 million for the license fee and \$0.2



**Table of Contents**

million of maintenance during fiscal 2009 in connection with this Technology License Agreement. In April 2009, the Company entered into an amendment to the Technology License Agreement with Vivante. We recorded \$1.0 million for the license fee and \$70,000 of maintenance during the three months ended May 2, 2009 in connection with the amendment to the Technology License Agreement. Dr. Sehat Sutardja and Weili Dai, through their ownership and control of Estopia LLC, are indirect shareholders of Vivante. In addition, Dr. Sehat Sutardja is also a direct shareholder and Chairman of the board of directors of Vivante. Weili Dai's brother (and Dr. Sehat Sutardja's brother-in-law) is the Chief Executive Officer of Vivante. Kuo Wei (Herbert) Chang, a member of our Board of Directors, through his ownership and control of C-Squared venture entities, is also an indirect shareholder of Vivante.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Interest Rate Risk.** The primary objective of our investment activities is to preserve principal while at the same time maximize the income we receive from our investments without significantly increasing risk. Some of the securities in which we have invested may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. Also, variable rate securities may produce less income than expected if interest rates fall. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of fixed and variable rate securities including money market funds, corporate debt securities, Federal, State, county and municipal debt securities and auction rate securities. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. The following table presents the amounts of our cash equivalents and short-term investments that are subject to market risk by range of expected maturity and weighted-average interest rates as of May 2, 2009 (in thousands). This table does not include money market funds because those funds are not subject to market risk. Auction rate securities are presented below with an expected fiscal year maturity date beyond five years because of recent auction failures. As a result, we believe that we have the ability to hold the securities for a period of longer than 12 months and thus have classified the auction rate securities based on the stated maturity date.

	Expected Fiscal Year Maturity Date							
	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value
Variable Rate	\$	\$	\$	\$	\$	\$ 41,850	\$ 41,850	\$ 39,655
Average Interest Rate						1.42%	1.42%	

As of May 2, 2009 and January 31, 2009, our investment portfolio included \$41.9 million in par value of auction rate securities. Auction rate securities are usually found in the form of municipal bonds, preferred stock, pools of student loans or collateralized debt obligations with contractual maturities generally between 20 and 30 years and whose interest rates are reset every seven to 35 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. Our auction rate securities are all backed by student loans originated under the Federal Family Education Loan Program, or the FFELP and are over-collateralized, insured and guaranteed by the U.S. Federal Department of Education, the DOE. All auction rate securities held by us are rated by the major independent rating agencies as either AAA or Aaa at the time of purchase.

In the fourth quarter ended January 31, 2009, UBS, one of the brokers in which we purchase auction rates securities from, offered a settlement where UBS has the right to call and sell one of the auction securities we purchased from them at par value of \$5 million at a future date. As a result of our participation in this settlement, we included the put option from the settlement in the long term investments and elected to apply SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS 159, or SFAS 159, to measure the put option at fair value. We also elected to transfer this auction rate security to trading securities from available-for-securities pursuant to SFAS 115,

Accounting for Certain Investments in Debt and Equity Securities, or SFAS 115, as our intent is to exercise the put option at a future date.

As of May 2, 2009, the estimated fair values of the auction rate securities were \$2.2 million less than their par value. Based primarily on our ability and intent to hold these securities until recovery and the extent of impairment, we concluded the decline in fair values was temporary and recorded the unrealized loss to accumulated other comprehensive income (loss), a component of shareholders' equity as of May 2, 2009. We specifically noted that we had approximately 4.0% of our total cash invested in these auction rate securities, a balance of approximately \$1.1 billion in cash and cash equivalents other than auction rate securities and restricted cash and that we continue to generate positive cash flow on a quarterly basis.

To the extent we determine that any impairment is other-than-temporary, the impairment would be recorded to earnings. In addition, we have concluded that the auctions for these securities may continue to fail for at least the next 12 months and as a result, these auction rate securities have been classified as long-term investments as of May 2, 2009.





## **Table of Contents**

At any time, fluctuations in interest rates could affect interest earnings on our cash, cash equivalents, and short-term investments, or the fair value of our investment portfolio.

*Investment Risk.* We invest in equity instruments of privately held companies for business and strategic purposes. These investments, which totaled \$7.1 million at May 2, 2009, are included in other non-current assets in the accompanying balance sheets and are accounted for under the cost method because our ownership is less than 20% and we do not have the ability to exercise significant influence over the operations of these companies. We monitor these investments for impairment and make appropriate reductions in carrying value when an impairment is deemed to be other than temporary.

*Foreign Currency Exchange Risk.* In general, we conduct the majority of our business around the world in U.S. dollars. Substantially all of our sales and the majority of our expenses to date have been denominated in U.S. dollars, and, as a result, we have relatively limited exposure to foreign currency exchange risk. Since we operate in many countries throughout the world, we record potential tax liabilities and the related effects of foreign exchange fluctuations on those tax liabilities to other income and expense. Significant fluctuations in exchange rates in countries where we record tax liabilities or incur operating expenses in local currency could affect our business and operating results in the future. We pay certain of our payroll and other operating expenses in local currencies and hold certain assets and liabilities in local currencies. Thus, we may experience both realized and unrealized foreign currency gains and losses due to these local currency exposures. There is also a risk that our customers may be negatively impacted in their ability to purchase our products priced in U.S. dollars when there has been significant volatility in foreign currency exchange rates. Occasionally, we will enter into short-term forward exchange contracts to hedge exposures for purchases denominated in foreign currencies such as the Singapore Dollar and the Israeli shekel. We do not enter into any other derivative financial instruments for trading or speculative purposes. Generally, our practice is to hedge only the most significant of its foreign exchange exposures, typically for three to 12 months. We may choose not to hedge certain foreign exchange exposures due to immateriality, offsetting exposures, prohibitive economic cost of hedging particular exposures, and limited availability of appropriate hedging instruments. As of May 2, 2009, we had \$45.4 million of notional value in forward contracts designated as cash flow hedges with an unrealized loss of \$1.1 million and \$21.1 million of notional value of forward contracts not designated as hedges with a realized loss of \$0.5 million. We had no forward contracts as of January 31, 2009. (See Note 5) If foreign currency rates were to fluctuate by 10% from rates as of May 2, 2009, our consolidated financial position, operating results and cash flows could be materially affected.

### **Item 4. Controls and Procedures Management's Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of January 31, 2009. Disclosure controls and procedures are designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of May 2, 2009, our disclosure controls and procedures were effective.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended May 2, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Limitation on Effectiveness of Controls**

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies and procedures may deteriorate. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.



**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The information set forth under Note 9 Commitments and Contingencies (Contingencies) of our notes to unaudited condensed consolidated financial statements, included in Part I, Item 1, is incorporated herein by reference. For additional discussion of certain risks associated with legal proceedings, see Part II, Item 1A, Risk Factors, immediately below.

**Item 1A. Risk Factors**

*Before deciding to purchase, hold or sell our common shares, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere and the other information contained in this quarterly report on Form 10-Q and in our other filings with the SEC, including our Annual Report on Form 10-K for the year ended January 31, 2009 and subsequent reports on Forms 10-Q and 8-K. Many of these risks and uncertainties are beyond our control, including business cycles and seasonal trends of the computing, semiconductor and related industries.*

***Our financial condition and results of operations may vary, which may cause the price of our common shares to decline.***

Our quarterly operating results have fluctuated in the past and could do so in the future. Because our operating results are difficult to predict, you should not rely on quarterly comparisons of our results of operations as an indication of our future performance.

Fluctuations in our operating results may be due to a number of factors, including, but not limited to, those listed below and those identified throughout this Risk Factors section:

general economic and political conditions and specific conditions in the markets we address, including the continuing volatility in the technology sector and semiconductor industry, and current general economic volatility;

order or shipment cancellations, rescheduling or deferrals of significant customer orders;

our ability to scale our operations in response to changes in demand for our existing products and services or demand for new products requested by our customers;

gain or loss of a key customer;

our ability to maintain a competitive cost structure for our manufacturing and assembly and test processes;

failure to qualify our products or our suppliers manufacturing lines;

our ability to exercise stringent quality control measures to obtain high yields;

effective and timely update of equipment and facilities as required for leading edge production capabilities; and

any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

Due to fluctuations in our quarterly operating results and other factors, the price at which our common shares will trade is likely to continue to be highly volatile. Recently we have experienced a substantial downturn in the market price of our common shares. In future periods, if our revenues or operating results are below our estimates or the estimates or expectations of public market analysts and investors, our stock price could decline. On average, technology companies have been subject to a greater number of securities class action claims than companies in many other industries as a result of stock price volatility. If our stock price is volatile, we may become involved in this type of litigation. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

## **Table of Contents**

***Our business, financial condition and results of operations may be adversely impacted by the recent global financial crisis. As a result, our financial results and the market price of our common shares may decline.***

We operate primarily in the semiconductor industry, which is cyclical and subject to rapid change and evolving industry standards. From time to time, this industry has experienced significant demand downturns. These downturns are characterized by decreases in product demand, excess customer inventories and sometimes accelerated erosion of prices. These factors could cause substantial fluctuations in our revenue and results of operations. In addition, during these downturns some competitors may become more aggressive in their pricing practices, which would adversely impact our gross margin. Furthermore, our foundry partners often require significant amounts of financing in order to build wafer fabrication facilities. If they are unable to obtain financing and anticipated capacity is not completed, we may experience a shortage of capacity, which could increase our costs or reduce our ability to meet customer demand. Any downturns in the current environment may be severe and prolonged, and any failure of the markets in which we operate to fully recover from downturns could seriously impact our revenue and harm our business, financial condition and results of operations.

Recently global credit and financial markets have been experiencing extreme volatility and disruptions, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, volatile energy costs, increases in unemployment rates, and uncertainty about economic stability. As a result, we experienced cancellations, deferrals and a significant slowdown in orders and anticipate that these lower revenue levels could continue for the foreseeable future. These conditions make it difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and could cause global businesses to slow spending on our products and services, which would delay and lengthen sales cycles. During challenging economic times our customers and distributors may face issues gaining timely access to sufficient credit, which could impact their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would increase. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, global or in the hard disk drive and semiconductor industry. If the economy or markets in which we operate continue to deteriorate, our business, financial condition and results of operations will likely be materially and adversely affected. Additionally, the combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could adversely impact our results of operations.

***Changes in our management may cause uncertainty in, or be disruptive to, our business.***

We have experienced significant changes in our management and our Board of Directors in recent years. In May 2007, our former Chief Financial Officer resigned. In addition, our former Executive Vice President and Chief Operating Officer, who is one of our co-founders, resigned from those executive officer positions and as a member of our Board of Directors but continued to serve in various non-executive officer positions for our U.S. operating subsidiary. In June 2008, we hired a Chief Financial Officer to replace our Interim Chief Financial Officer who transitioned to Acting Chief Operating Officer. The service of our Acting Chief Operating Officer concluded in October 2008 and our Chief Financial Officer was appointed to serve as Interim Chief Operating Officer until a permanent replacement can be hired. We also recently hired a new general counsel of our U.S. operating subsidiary. If we cannot recruit a qualified permanent replacement for the position of Chief Operating Officer, our business may suffer. Moreover, we continue to search for new independent directors to fill the existing vacancies on our Board of Directors, and two of the independent directors currently on our Board of Directors joined our Board of Directors in October 2007 and July 2008, respectively. An independent director was appointed to a new position of Lead Independent Director in April 2009. Although we will endeavor to implement any director and management transition in as non-disruptive a manner as possible, any such transition might impact our business, and give rise to uncertainty among customers, investors, vendors, employees and others concerning our future direction and performance. Our future success will depend to a significant extent on the ability of our management team to work together effectively. The loss of any of our management or other key personnel could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate. Moreover, our success will depend on our ability to attract, hire and retain qualified management and other key personnel and on the abilities of the new management personnel to function effectively, both individually and as a group, going forward. If we are unable to attract and retain effective qualified replacements for our key executives and board of directors positions in a timely manner, our business, financial condition, results of operations and cash flows may be adversely affected and our ability to execute our business model could be impaired.

***The tentative settlements of pending consolidated shareholder derivative and class action lawsuits require the court's final approval and may not be approved by the court.***

On or about March 5, 2008, the parties to the consolidated shareholder derivative action relating to our historic stock option granting practices entered into a memorandum of understanding that tentatively settles and resolves the matter. On May 21, 2009, the court issued an order preliminarily approving the settlement. A hearing to determine whether the court should issue an order finally approving the proposed settlement has been scheduled for July 17, 2009. The court may not grant final approval of the tentative settlement.



## **Table of Contents**

On June 9, 2009, we entered into an agreement to resolve the shareholder class action lawsuit filed against us and certain of our former and current officers and directors relating to our historic stock option granting practices. This class action settlement is subject to preliminary and then, following notice to class members, final approval by the United States District Court for the Northern District of California. The court may not grant preliminary or final approval of this tentative settlement.

If either of these tentative settlements is not finally approved by the court, the parties might elect or be required to continue litigating these matters. This may cause us to incur substantial additional litigation costs and expenses and other liabilities, and may be distracting to management.

***As a result of the settlement with the SEC, we cannot invoke the safe harbor for the forward-looking statements provision of the Private Securities Litigation Reform Act of 1995 for three years following the entry of judgment.***

On May 8, 2008, we announced that we had reached an agreement with the SEC to settle this matter. As a result of our SEC settlement, we have forfeited for three years following the entry of judgment, or June 20, 2011, the ability to invoke the safe harbor for the forward-looking statements provision of the Private Securities Litigation Reform Act of 1995. This safe harbor provided us enhanced protection from liability related to forward-looking statements if the forward-looking statements were either accompanied by meaningful cautionary statements or were made without actual knowledge that they were false or misleading. Without the statutory safe harbor, it may be more difficult for us to defend against any claims based on forward-looking statements.

***Class action litigation due to stock price volatility or other factors could cause us to incur substantial costs and divert our management's attention and resources.***

Securities class action litigation often has been brought against a company following periods of volatility in the market price of its securities. Companies in the integrated circuit industry and other technology industries are particularly vulnerable to this kind of litigation due to the high volatility of their stock prices. Accordingly, we may in the future be the target of additional securities litigation. Any securities litigation could result in substantial costs, could divert the attention and resources of our management, and could have a material adverse effect on our reputation, business, financial condition, financial results, results of operations and cash flows.

***If the recent worsening of credit market conditions continues or increases, it could have a material adverse impact on our investment portfolio.***

Recent U.S. sub-prime mortgage defaults have had a significant impact across various sectors of the financial markets, causing global credit and liquidity issues. The short-term funding markets experienced credit issues beginning in the second half of calendar 2007 and continuing to date through the first quarter of calendar 2009, leading to liquidity disruption in asset-backed commercial paper and failed auctions in the auction rate securities market. If the global credit market continues to deteriorate, our investment portfolio may be impacted and we could determine that some of our investments are impaired. This could materially adversely impact our results of operations and financial condition.

As of May 2, 2009 and January 31, 2009, our investment portfolio included \$41.9 million in par value of auction rate securities. Auction rate securities are usually found in the form of municipal bonds, preferred stock, pools of student loans or collateralized debt obligations with contractual maturities generally between 20 and 30 years and whose interest rates are reset every seven to 35 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. Our auction rate securities are all backed by student loans originated under the FFELP, and are over-collateralized, insured and guaranteed by the DOE. All auction rate securities held by us are rated by the major independent rating agencies as either AAA or Aaa at the time of purchase.

In the fourth quarter ended January 31, 2009, UBS, one of the brokers who we purchased auction rate securities from, offered a settlement where UBS has the right to call and sell one of the auction securities we purchased from them at par value of \$5 million at a future date. As a result of our participation in this settlement, we included the put option from the settlement in long term investments and elected to apply SFAS 159 to measure the put option at fair value. We also elected to transfer this auction rate security to trading securities from available-for-sale securities pursuant to SFAS 115, as our intent is to exercise the put option at a future date.

As of May 2, 2009, the estimated fair values of the auction rate securities were \$2.2 million less than their par value. Based primarily on our ability and intent to hold these securities until recovery and the extent of impairment, we concluded the decline in fair values was temporary and recorded the unrealized loss to accumulated other comprehensive income (loss), a component of shareholders' equity as of May 2, 2009. We specifically noted that we had approximately 4.0% of our total cash invested in these auction rate securities, a cash balance of approximately \$1.1 billion in cash and cash equivalents other than auction rate securities and restricted cash, and that we continue to generate positive cash flow on a quarterly basis.





## **Table of Contents**

To the extent we determine that any impairment is other-than-temporary, the impairment would be recorded to earnings. In addition, we have concluded that the auctions for these securities may continue to fail for at least the next 12 months and as a result, these auction rate securities have been classified as long-term investments as of May 2, 2009.

In addition, to support our international operations, a portion of our cash and investment portfolio is held offshore. While these amounts are primarily invested in U.S. dollars, a portion is held in foreign currencies, and all offshore balances are exposed to local political, banking, currency control and other risks. Certain of these amounts may also be subject to tax and other restrictions on their transfer to the U.S. or other countries. While we believe our cash and investments are secure, there is risk that some of our balances in international locations will not be adequately secured if the current credit crisis continues.

***We have made and may continue to make acquisitions and investments, which could divert management's attention, cause ownership dilution to our shareholders, be difficult to integrate and adversely affect our results of operations and share price.***

We expect to continue to make acquisitions of, and investments in, businesses that offer complementary products, services and technologies, augment our market segment coverage, or enhance our technological capabilities. In the past three fiscal years, we have completed the acquisition of the ICAP Business and other small acquisitions. We may also enter into strategic alliances or joint ventures to achieve these goals. We cannot assure you that we will be able to identify suitable acquisition, investment, alliance or joint venture opportunities in the future, or that we will be able to consummate any such transactions or relationships on terms and conditions acceptable to us, or that such transactions or relationships will be successful.

Integrating newly acquired businesses or technologies typically entail many risks that could put a strain on our resources, could be costly and time consuming, and might not be successful. In addition, any acquisitions could materially harm our results of operations or liquidity as a result of either the issuance of dilutive equity securities or payment of cash. Moreover, such acquisitions could divert our management's attention from other business concerns and also result in customer dissatisfaction. In addition, we might lose key employees of the newly acquired organizations during the acquisition process. The acquisition of another company or its products and technologies may also require us to enter into a geographic or business market in which we have little or no prior experience.

In addition, the purchase price of any acquired businesses may exceed the current fair values of the net tangible assets of the acquired businesses. As a result, we would be required to record material amounts of goodwill, acquired IPRD, charges and other intangible assets, which could result in significant impairment and acquired IPRD charges and amortization expense in future periods. It may also be necessary for us to take other financial charges and reserves as a result of acquisitions, such as inventory write-downs. These charges, in addition to the results of operations of such acquired businesses, could have a material adverse effect on our business, financial condition and results of operations.

***We are exposed to potential impairment charges on certain assets.***

Over the past several years, we have made several acquisitions. As a result of these acquisitions, we had approximately \$2.0 billion of goodwill and \$256.2 million of intangible assets on our balance sheet as of May 2, 2009. Under GAAP, we are required to review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. If the businesses acquired fail to meet our expectations set out at the time of the acquisition or if our market capitalization adjusted for control premiums and other factors declines to below our carrying value, we could incur significant impairment charges, which could negatively impact our financial results. For example, as a result of our analysis related to acquired intangible assets, we recorded an impairment charge of \$15.6 million in the fourth quarter ended January 31, 2009. In addition, from time to time, we have made investments in other private companies. If the companies that we invest in are unable to execute their plans and succeed in their respective markets, we may not benefit from such investments, and we could potentially lose the amounts we invest. In addition, we evaluate our investment portfolio on a regular basis to determine if impairments have occurred. Impairment charges could have a material impact on our results of operations in any period.

## **Table of Contents**

***A significant portion of our business is dependent on the hard disk drive industry, which is highly cyclical, experiences rapid technological change, and is facing increased competition from alternative technologies.***

The hard disk drive industry is intensely competitive, and the technology changes rapidly. As a result, this industry is highly cyclical, with periods of increased demand and rapid growth followed by periods of oversupply and subsequent contraction. These cycles may affect us because some of our customers are participants in this industry. Hard disk drive manufacturers tend to order more components than they may need during growth periods, and sharply reduce orders for components during periods of contraction. In addition, advances in existing technologies and the introduction of new technologies may result in lower demand for disk drive storage devices, thereby reducing demand for our products. Rapid technological changes in the hard disk drive industry often result in significant and rapid shifts in market share among the industry's participants. If the hard disk drive manufacturers using our products do not retain or increase their market share, our sales may decrease.

Future changes in the nature of information storage products may reduce demand for traditional hard disk drives. For instance, products using alternative technologies, such as semiconductor memory, optical storage, solid-state flash drives and other storage technologies could become a significant source of competition to manufacturers of hard disk drives. Flash memory has typically been more costly than disk drive technologies. However, flash memory manufacturers have been reducing the prices for their products, which could enable them to compete more effectively with very small form factor hard disk drive products. Demand for hard disk drives could be reduced if alternative storage technologies such as flash memory can meet customers' cost and capacity requirements.

***Our sales are concentrated in a few customers, and if we lose or experience a significant reduction in sales to any of these key customers, our revenues may decrease substantially.***

We receive a significant amount of our revenues from a limited number of customers. For the first quarter ended May 2, 2009, two customers accounted for a total of approximately 39% of our net revenue. Sales to our largest customers have fluctuated significantly from period to period primarily due to the timing and number of design wins with each customer, as well as the continued diversification of our customer base as we expand into new markets, and will likely continue to fluctuate dramatically in the future. The loss of any of our large customers, a significant reduction in sales we make to them, or any problems we encounter collecting amounts due from them would likely harm our financial condition and results of operations. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that incorporate our products. In the future, these customers may decide not to purchase our products at all, purchase fewer products than they did in the past, or alter their purchasing patterns in some other way, particularly because:

substantially all of our sales are made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty;

our customers may develop their own solutions;

our customers may purchase integrated circuits from our competitors; or

our customers may discontinue sales or lose market share in the markets for which they purchase our products.

## **Table of Contents**

***We rely on independent foundries and subcontractors for the manufacture, assembly and testing of our integrated circuit products, and the failure of any of these third party vendors to deliver products or otherwise perform as requested could damage our relationships with our customers, decrease our sales and limit our growth.***

We do not have our own manufacturing or assembly facilities and have very limited in-house testing facilities. Therefore, we rely on third party vendors to manufacture, assemble and test the products we design. We currently rely on several third party foundries to produce substantially all of our integrated circuit products. We also currently rely on several third party assembly and test subcontractors to assemble, package and test our products. This exposes us to a variety of risks, including the following:

### *Regional Concentration:*

Substantially all of our products are manufactured by third party foundries located in Taiwan. Currently our alternative manufacturing sources are located in China and Singapore. In addition, substantially all of our assembly and testing facilities are located in Singapore, Taiwan, Malaysia and the Philippines. Because of the geographic concentration of these third party foundries, we are exposed to the risk that their operations may be disrupted by regional disasters. For example, the risk of an earthquake in Taiwan and elsewhere in the Pacific Rim region is significant due to the proximity of major earthquake fault lines to the facilities of our foundries and assembly and test subcontractors. In September 1999, a major earthquake in Taiwan affected the facilities of several of these third party contractors. As a consequence of this earthquake, these contractors suffered power outages and disruptions that impaired their production capacity. Major earthquakes also occurred in Taiwan in 2002, 2003, 2004 and 2006. In addition, the resurgence of severe acute respiratory syndrome, the outbreak of avian flu and any similar future outbreaks in Asia, where these foundries are located, could affect the production capabilities of our manufacturers by resulting in quarantines or closures. In the event of such a quarantine or closure, if we were unable to quickly identify alternate manufacturing facilities, our revenues, cost of revenues and results of operations would be negatively impacted. If these vendors do not provide us with high-quality products and services in a timely manner, or if one or more of these vendors terminates its relationship with us, we may be unable to obtain satisfactory replacements to fulfill customer orders on a timely basis, our relationships with our customers could suffer, our sales could decrease and harm our business, financial condition or results of operations.

### *No Guarantee of Capacity or Supply:*

Availability of foundry capacity has from time to time in the past been constrained due to strong demand, and with limited exceptions, our vendors are not obligated to perform services or supply products to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. The ability of each foundry to provide us with semiconductor devices is limited by its available capacity and existing obligations. Although we have entered into contractual commitments to supply specified levels of products to some of our customers, we may not have sufficient levels of production capacity with all of our foundries, despite signing a long-term guaranteed production capacity agreement with one of our foundries. Despite this agreement, foundry capacity may not be available when we need it or at reasonable prices. We place our orders on the basis of our customers' purchase orders or our forecast of customer demand, and the foundries can allocate capacity to the production of other companies' products and reduce deliveries to us on short notice. It is possible that foundry customers that are larger and better financed than we are or that have long-term agreements with our main foundries, may induce our foundries to reallocate capacity to those customers. This reallocation could impair our ability to secure the supply of components that we need.

Although we use several independent foundries to manufacture substantially all of our semiconductor products, most of our components are not manufactured at more than one foundry at any given time, and our products typically are designed to be manufactured in a specific process at only one of these foundries. Accordingly, if one of our foundries is unable to provide us with components as needed, it may be difficult for us to transition the manufacture of our products to other foundries, and we could experience significant delays in securing sufficient supplies of those components. This could result in a material decline in revenues, net income and cash flow.

In order to secure sufficient foundry capacity when demand is high and mitigate the risks described in the foregoing paragraph, we may enter into various arrangements with suppliers that could be costly and harm our results of operations, such as non-refundable deposits with or loans to foundries in exchange for capacity commitments, and contracts that commit us to purchase specified quantities of integrated circuits over extended periods. We may not be able to make any such arrangement in a timely fashion or at all, and any arrangements may be costly, reduce our financial flexibility, and not be on terms favorable to us. For example, amounts payable under our foundry capacity are non-refundable regardless of whether we are able to utilize all or any of the guaranteed wafer capacity under the terms of the agreement. Moreover, if we are able to secure foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties may be expensive and could harm our financial results.

## **Table of Contents**

### *Uncertain Yields and Quality:*

The fabrication of integrated circuits is a complex and technically demanding process. Our foundries have from time to time experienced manufacturing defects and reduced manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundries could result in lower than anticipated manufacturing yields or unacceptable performance. Many of these problems are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. Poor yields from our foundries, or defects, integration issues or other performance problems in our products could cause us significant customer relations and business reputation problems, harm our financial results and result in financial or other damages to our customers. Our customers could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend. In addition, defects in our existing or new products could result in significant warranty, support and repair costs, and divert the attention of our engineering personnel from our product development efforts.

To the extent that we rely on outside suppliers to manufacture or assemble and test our products, we may have a reduced ability to control directly product delivery schedules and quality assurance. This lack of control may result in product shortages or quality assurance problems that could delay shipments of products or increase manufacturing, assembly, testing or other costs.

### ***If we are unable to accurately predict our future sales and to appropriately budget for our expenses, our results of operations could suffer.***

The rapidly changing nature of the global economy and the markets in which we sell our products limits our ability to accurately forecast quarterly and annual sales. Additionally, because many of our expenses are fixed in the short term or are incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any shortfall of sales. If our sales do not increase as anticipated, our profitability could be adversely affected due to our higher expense levels. For example, in the fourth quarter ended January 31, 2009, we implemented cost reduction measures to reduce operating expenses due to the challenging economic environment. Further, in the first quarter ended May 2, 2009, we announced plans that combined with the cost reduction measures taken in the fourth quarter ended January 31, 2009, will reduce our global workforce by approximately 15%, or approximately 850 employees. We expect cost savings from this restructuring to be used to offset market forces or to be reinvested in our businesses to strengthen our competitiveness, but we cannot be certain that we will be successful in these efforts.

### ***If we are unable to develop and introduce new and enhanced products that achieve market acceptance in a timely and cost-effective manner, our results of operations and competitive position will be harmed.***

Our future success will depend on our ability, in a timely and cost-effective manner, to develop and introduce new products and enhancements to our existing products. We must also achieve market acceptance for these products and enhancements. If we do not successfully develop and achieve market acceptance for new and enhanced products, our ability to maintain or increase revenues will suffer. The development of our products is highly complex. We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. Even if new and enhanced products are introduced to the market, we may not be able to achieve market acceptance of them in a timely manner.

In addition, our longstanding relationships with some of our larger customers may also deter other potential customers who compete with these customers from buying our products. To attract new customers or retain existing customers, we may offer certain customers favorable prices on our products. If these prices are lower than the prices paid by our existing customers, we would have to offer the same lower prices to certain of our customers who have contractual most favored nation pricing arrangements. In that event, our average selling prices and gross margins would decline. The loss of a key customer, a reduction in sales to any key customer or our inability to attract new significant customers could materially and adversely affect our business, financial condition and results of operations.

## **Table of Contents**

***If we fail to appropriately scale our operations in response to changes in demand for our existing products and services or to the demand for new products requested by our customers, our business could be materially and adversely affected.***

To achieve our business objectives, it may be necessary from time to time for us to expand or contract our operations. For example, we have experienced periods of rapid growth and expansion. Through internal growth and acquisitions, we significantly increased the scope of our operations and expanded our workforce from 1,205 employees, as of January 31, 2003, to 5,308 employees, as of May 2, 2009. Nonetheless, we may not be able to scale our workforce and operations in a sufficiently timely manner to respond effectively to changes in demand for our existing products and services or to the demand for new products requested by our customers. In that event, we may be unable to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected. Conversely, if we expand our operations and workforce too rapidly in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expected, the rate of increase in our costs and operating expenses may exceed the rate of increase in our revenue, which would adversely affect our results of operations. In addition, if such demand does not materialize at the pace which we expect, we may scale down our business further through additional expense and headcount reductions as well as facility consolidations or closures that could result in restructuring charges that would materially and adversely affect our results of operations. For example, in the fourth quarter ended January 31, 2009, we implemented cost reduction measures to reduce operating expenses due to the challenging economic environment. Further, in the first quarter ended May 2, 2009, we announced plans that combined with the cost reduction measures taken in the fourth quarter ended January 31, 2009, will reduce our global workforce by approximately 15%, or approximately 850 employees.

Our past growth has placed, and any future long-term growth is expected to continue to place, a significant strain on our management personnel, systems and resources. To implement our current business and product plans, we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort. Although we have implemented an enterprise resource planning system to help us improve our planning and management processes, we anticipate that we will also need to continue to implement and improve a variety of new and upgraded operational and financial systems, as well as additional procedures and other internal management systems. These processes can be time consuming and expensive, increase management responsibilities and divert management attention. If we are unable to effectively manage our expanding operations, we may be unable to scale our business quickly enough to meet competitive challenges or exploit potential market opportunities, or conversely, we may scale our business too quickly and the rate of increase in our costs and expenses may exceed the rate of increase in our revenue, either of which would materially and adversely affect our current or future business.

***We rely on third party distributors and manufacturers' representatives and the failure of these distributors and manufacturers' representatives to perform as expected could reduce our future sales.***

We sell many of our products to customers through distributors and manufacturers' representatives. From time to time, we enter into relationships with new distributors and manufacturers' representatives, and we are unable to predict the extent to which new distributors and manufacturers' representatives will be successful in marketing and selling our products. Moreover, many of our distributors and manufacturers' representatives also market and sell competing products. Our distributors and manufacturers' representatives may terminate their relationships with us at any time. Our future performance will also depend, in part, on our ability to attract additional distributors or manufacturers' representatives that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products. If we cannot retain our current distributors or manufacturers' representatives or recruit additional or replacement distributors or manufacturers' representatives, our sales and operating results will be harmed. We generally realize a higher gross margin on direct sales and from sales through manufacturers' representatives than on sales through distributors. Accordingly, if our distributors were to account for an increased portion of our net sales, our gross margins may decline.

***We are subject to order and shipment uncertainties, and if we are unable to accurately predict customer demand, we may hold excess or obsolete inventory, which would reduce our gross margin, or, conversely, we may have insufficient inventory, which would result in lost revenue opportunities and potentially in loss of market share and damaged customer relationships.***

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Customers can generally cancel or defer purchase orders on short notice without incurring a significant penalty. In the recent past, some of our customers have developed excess inventories of their own products and have, as a consequence, deferred purchase orders for our products. We cannot accurately predict what or how many products our customers will need in the future. Anticipating demand is difficult because our customers face volatile pricing and unpredictable demand for their own products and are increasingly focused more on cash preservation and tighter inventory management. In addition, as an increasing number of our chips are being incorporated into consumer products, we anticipate greater fluctuations in demand for our products, which makes it more difficult to forecast customer demand. We place orders with our suppliers based on forecasts of customer demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. Our forecasts are based on multiple assumptions, each of which may introduce error into our estimates. If we overestimate customer demand, we may allocate resources to manufacturing products that we may not be able



## **Table of Contents**

to sell when we expect to, if at all. As a result, we would hold excess or obsolete inventory, which would reduce our gross margin and adversely affect our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would forgo revenue opportunities and potentially lose market share and damage our customer relationships. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect our profit margins, increase product obsolescence and restrict our ability to fund our operations. Furthermore, we generally recognize revenue upon shipment of products to a customer. If a customer refuses to accept shipped products or does not timely pay for these products, we could incur significant charges against our income.

***We may experience difficulties in transitioning to smaller geometry process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.***

In order to remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify the manufacturing processes for our products and to redesign some products. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs. In the past, we have experienced some difficulties in shifting to smaller geometry process technologies or new manufacturing processes, which resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes. We are dependent on our relationships with our foundry subcontractors to transition to smaller geometry processes successfully. We cannot assure you that the foundries that we use will be able to effectively manage the transition or that we will be able to maintain our existing foundry relationships or develop new ones. If we or any of our foundry subcontractors experience significant delays in this transition or fail to efficiently implement this transition, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations. As smaller geometry processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis, if at all. Moreover, even if we are able to achieve higher levels of design integration, such integration may have a short-term adverse impact on our results of operations, as we may reduce our revenue by integrating the functionality of multiple chips into a single chip.

***We have had material weaknesses in internal control over financial reporting in prior fiscal years. Although we believe we have taken the necessary actions to strengthen the weaknesses in our control structure, we cannot assure you that additional material weaknesses will not be identified in the future. If our internal control over financial reporting or disclosure controls and procedures are not effective, there may be errors in our financial statements that could require a restatement or our filings may not be filed on a timely basis and investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.***

We strongly believe that effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. The Sarbanes-Oxley Act of 2002 requires management and our auditors to evaluate and assess the effectiveness of our internal control over financial reporting, as of the end of each year, and to include a management report assessing the effectiveness of our internal control over financial reporting in each Annual Report on Form 10-K.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. In addition, we are consistently evaluating the design and operating effectiveness of our internal controls in accordance with Auditing Standard No. 5, a process which sometimes leads to modifications in such controls. These modifications could affect the overall effectiveness or evaluation of the control system in the future by us or our independent registered public accounting firm. These inherent limitations include the realities that judgments in decision making can be faulty, breakdowns can occur because of simple error or mistake and errors discovered by personnel within control systems may not be properly disclosed and addressed. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **Table of Contents**

***Changes in financial accounting standards or practices or changes in existing taxation rules or practices may cause adverse unexpected revenue and expense fluctuations and affect our reported results of operations.***

Changes in financial accounting standards or practices or changes in existing taxation rules or practices may have a significant effect on our reported results. New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation practice have occurred and may occur in the future. For example, the U.S. Congress is considering legislation affecting the taxation of foreign corporations and such legislation if enacted might adversely affect our future tax liabilities. Changes to existing rules or the questioning of current practices by regulators may adversely affect our reported financial results or the way we conduct our business.

***We depend on key personnel with whom we do not have employment agreements to manage our business, and if we are unable to retain our current personnel and hire additional personnel, our ability to develop and successfully market our products could be harmed.***

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering and sales and marketing personnel. The loss of key employees or the inability to attract or retain qualified personnel, including engineers and sales and marketing personnel could delay the development and introduction of and harm our ability to sell our products. We do not have employment agreements with any of our key technical personnel, and their knowledge of our business and industry would be extremely difficult to replace.

The competition for qualified technical personnel with significant experience in the design, development, manufacturing, marketing and sales of integrated circuits is intense. It is important that we are able to identify, hire and retain engineers who are familiar with the intricacies of the design and manufacture of products based on analog technology. Our key technical personnel represent a significant asset and serve as the source of our technological and product innovations. We may not be successful in attracting and retaining sufficient numbers of technical personnel to develop new products or enhance existing products in a timely manner.

***Two of our officers and directors own a large percentage of our voting stock, and, together with another employee who is also a significant shareholder, are related by blood or marriage. These factors may allow the officers and directors as a group or the three related employees to influence the election of directors and the approval or disapproval of significant corporate actions.***

Dr. Sehat Sutardja, our President and Chief Executive Officer, and Weili Dai, who serves as our Vice President of Sales for Communications and Consumer Business of MSI and Vice President and General Manager of Communications and Computing Business Unit of MSI, are husband and wife, and Dr. Sehat Sutardja and Dr. Pantas Sutardja, our Vice President, Chief Technology Officer and Chief Research and Development Officer, are brothers. Together, these three individuals held approximately 18% of our outstanding common shares as of May 2, 2009. As a result, if these individuals act together, they may influence the election of our directors and the approval or disapproval of any significant corporate actions that require shareholder approval. This influence over our affairs might be adverse to the interests of other shareholders. For instance, the voting power of these individuals could have the effect of delaying or preventing an acquisition of us on terms that other shareholders may desire. Furthermore, we have a classified board, which could further delay or prevent an acquisition, under certain circumstances.

Under Bermuda law, all of our officers, in exercising their powers and discharging their duties, must act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Majority shareholders do not owe fiduciary duties to minority shareholders. As a result, the minority shareholders will not have a direct claim against the majority shareholders in the event the majority shareholders take actions that damage the interests of minority shareholders. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda, except that Bermuda courts would be expected to follow English case law precedent, which would permit a shareholder to bring an action in our name if the directors or officers are alleged to be acting beyond our corporate power, committing illegal acts or violating our Memorandum of Association or Second Amended and Restated Bye-Laws. Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requiring the approval of a greater percentage of the company's shareholders than those who actually approved it.

The Companies Act 1981 of Bermuda, as amended, provides that when one or more shareholders believes the affairs of a company are being conducted in a manner which is prejudicial to the interest of some of the shareholders, a Bermuda court, upon petition, may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders by other shareholders or by the company, and in the case of a purchase of the shares by the company, for the reduction accordingly of the company's capital or otherwise.





## **Table of Contents**

*As a result of our global operations, we face foreign business, political and economic risks, which may harm our results of operations, because a majority of our products and our customers' products are manufactured and sold outside of the United States.*

A substantial portion of our business is conducted outside of the United States and, as a result, we are subject to foreign business, political and economic risks. All of our products are manufactured outside of the United States. Our current qualified integrated circuit foundries are located in the same region within Taiwan, and our primary assembly and test subcontractors are located in the Pacific Rim region. In addition, many of our customers are located outside of the United States, primarily in Asia, which further exposes us to foreign risks. Sales to customers located in Asia represented approximately 88% of our net revenue for the quarter ended May 2, 2009, 86% of our net revenue in fiscal 2009, 84% of our net revenue in fiscal 2008 and 89% of our net revenue in fiscal 2007.

We have substantial operations, including approximately 21% of our workforce as of May 2, 2009, in Israel. These operations are directly influenced by the political, economic and military conditions affecting Israel. Any potential hostilities involving or within Israel could disrupt these operations. For example, past hostilities between Israel and the Palestinian authority and other groups have caused substantial political unrest, which could lead to a potential economic downturn in Israel.

We anticipate that our manufacturing, assembly, testing and sales outside of the United States will continue to account for a substantial portion of our operations and revenue in future periods. Accordingly, we are subject to risks associated with international operations, including:

political, social and economic instability, including wars, terrorism, other hostilities and political unrest, boycotts, curtailment of trade and other business restrictions;

compliance with domestic and foreign export and import regulations, and difficulties in obtaining and complying with domestic and foreign export, import and other governmental approvals, permits and licenses;

compliance with foreign laws, and laws and practices that favor local companies;

difficulties in staffing and managing foreign operations;

trade restrictions or higher tariffs;

transportation delays;

difficulties of managing distributors, especially because we expect to continue to increase our sales through international distributors;

less effective protection of intellectual property than is afforded to us in the United States or other developed countries; and

inadequate local infrastructure.

Moreover, the international nature of our business subjects us to risk associated with the fluctuation of the U.S. dollar versus foreign currencies. Decreases in the value of the U.S. dollar versus currencies in jurisdictions where we have large fixed costs will increase the cost of such operations, which could harm our results of operations. For example, we have large fixed costs in Israel, which become relatively greater if the U.S. dollar declines in value versus the Israeli shekel. On the other hand, because substantially all of our sales to date have been denominated in U.S. dollars, increases in the value of the U.S. dollar will increase the price of our products so that they become relatively more expensive to customers in the local currency of a particular country, potentially leading to a reduction in sales and profitability for us in that country. A portion of our international revenue may be denominated in foreign currencies in the future, which will subject us to risks associated with

fluctuations in exchange rates for those foreign currencies.

***The average selling prices of products in our markets have historically decreased rapidly and will likely do so in the future, which could harm our revenues and gross margin.***

The products we develop and sell are used for high volume applications. As a result, the prices of those products have historically decreased rapidly. We may not be able to maintain or improve the gross margins and our gross profits and financial results will suffer if we are unable to offset any reductions in our average selling prices by increasing our efficiency through increasing sales volumes, reducing our costs, or developing new or enhanced products on a timely basis with higher selling prices or gross margin.

## **Table of Contents**

Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities, and our costs may even increase, which could also reduce our gross margin. In the past, we have reduced the average selling prices of our products in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. We expect that we will have to do so again in the future.

***We have a lengthy and expensive product sales cycle that does not assure product sales, and that if unsuccessful, may harm our results of operations.***

The sales cycle for many of our products is long and requires us to invest significant resources with each potential customer without any assurance of sales to that customer. Our sales cycle typically begins with an extended evaluation and test period, also known as qualification, during which our products undergo rigorous reliability testing by our customers.

Qualification is typically followed by an extended development period by our customers and an additional three to nine month period before a customer commences volume production of equipment incorporating our products. This lengthy sales cycle creates the risk that our customers will decide to cancel or change product plans for products incorporating our integrated circuits. During our sales cycle, our engineers assist customers in implementing our products into the customers' products. We incur significant research and development, selling and marketing, general and administrative expenses as part of this process, and this process may never generate related revenues. We derive revenue from this process only if our design is selected. Once a customer selects a particular integrated circuit for use in its products, the customer generally will solely use that integrated circuit for a full generation of its product. Therefore, if we do not achieve a design win for a product, we will be unable to sell our integrated circuit to a customer until that customer develops a new product or a new generation of its product. Even if we achieve a design win with a customer, the customer may not ultimately ship products incorporating our products or may cancel orders after we have achieved a sale. In addition, we will have to begin the qualification process again when a customer develops a new generation of a product for which we were the successful supplier for the prior generation.

Our typical customer contract does not obligate the customer to any minimum purchase commitment. We may build inventory in anticipation of receiving customer orders, but if such customer demand does not develop as we anticipate, it may become necessary for us to write-off such inventory. Also, during the final production of a mature product, our customers typically exhaust their existing inventory of our integrated circuits. Consequently, orders for our products may decline in those circumstances, even if our products are incorporated into both our customers' mature and replacement products. A delay in a customer's transition to commercial production of a replacement product may cause the customer to lose sales, which would delay our ability to recover the lost sales from the discontinued mature product. In addition, customers may defer orders in anticipation of new products or product enhancements from our competitors or us.

***We must keep pace with rapid technological change and evolving industry standards in the semiconductor industry to remain competitive.***

Our future success will depend on our ability to anticipate and adapt to changes in technology and industry standards and our customers' changing demands. We sell products in markets that are characterized by rapid technological change, evolving industry standards, frequent new product introductions, short product life cycles and increasing demand for higher levels of integration and smaller process geometries. Our past sales and profitability have resulted, to a large extent, from our ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products incorporating the new standards and technologies. Our ability to adapt to these changes and to anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving our competitive position and prospects for growth. If new industry standards emerge, our products or our customers' products could become unmarketable or obsolete, and we could lose market share. We may also have to incur substantial unanticipated costs to comply with these new standards. In addition, our target markets continue to undergo rapid growth and consolidation. A significant slowdown in any of these markets could materially and adversely affect our business, financial condition and results of operations. Our success will also depend on the ability of our customers to develop new products and enhance existing products for the markets we serve and to introduce and promote those products successfully.

## **Table of Contents**

***We may be unable to protect our intellectual property, which would negatively affect our ability to compete.***

We believe one of our key competitive advantages results from our collection of proprietary technologies that we have developed since our inception. If we fail to protect these intellectual property rights, competitors could sell products based on technology that we have developed that could harm our competitive position and decrease our revenues. We believe that the protection of our intellectual property rights is and will continue to be important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies. We also enter into confidentiality or license agreements with our employees, consultants and business partners, and control access to and distribution of our documentation and other proprietary information. We have been issued several U.S. and foreign patents and have a number of pending U.S. and foreign patent applications. However, a patent may not be issued as a result of any applications or, if issued, claims allowed may not be sufficiently broad to protect our technology. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. Despite our efforts, unauthorized parties may attempt to copy or otherwise obtain and use our products or proprietary technology. Monitoring unauthorized use of our technology is difficult, and the steps that we have taken may not prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours.

Certain of our software (as well as that of our customers) may be derived from so-called "open source" software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available under licenses, such as the GNU General Public License which impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the forms of license customarily used to protect our intellectual property. In addition, there is little or no legal precedent for interpreting the terms of certain of these open source licenses, including the determination of which works are subject to the terms of such licenses. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event that the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work.

***We may become involved with costly and lengthy litigation, which could subject us to liability, require us to obtain or renew licenses or stop selling our products or force us to redesign our products.***

Litigation involving patents and other intellectual property is widespread in the high-technology industry and is particularly prevalent in the integrated circuit industry, where a number of companies and other entities aggressively bring numerous infringement claims to assert their patent portfolios. From time to time our subsidiaries and customers receive, and may continue to receive in the future, notices that allege claims of infringement, misappropriation or misuse of the intellectual property rights of third parties. For example, in recent years, multiple claims have been made against our subsidiaries and our customers related to standards-based technologies such as wireless LAN. In addition, we have certain patent licenses with third parties that are up for renewal in calendar year 2009, and if we cannot successfully renew these licenses, our subsidiaries and customers could face claims of infringement. These claims could result in litigation and/or claims for indemnification, which, in turn, could subject us to significant liability for damages, attorneys fees and costs. Any potential intellectual property litigation also could force us to do one or more of the following:

stop selling, offering for sale, making, having made or exporting products or using technology that contains the allegedly infringing intellectual property;

limit or restrict the type of work that employees involved in such litigation may perform for us;

pay substantial damages and/or license fees and/or royalties to the party claiming infringement that could adversely impact our liquidity or operating results;

attempt to obtain or renew licenses to the relevant intellectual property, which licenses may not be available on reasonable terms or at all; and

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

attempt to redesign those products that contain the allegedly infringing intellectual property.

In addition, many of our contracts with our customers require us to indemnify our customers' products against claims alleging infringement of the proprietary rights of other parties. We have agreed to indemnify select customers for claims made against our products, where such claims allege infringement of third party intellectual property rights, including, but not limited to, patents, registered trademarks, and/or copyrights. For example, customers have requested us to indemnify them in connection with a patent infringement lawsuits filed in Texas by Australia's Commonwealth Scientific and Industrial Research Organization, or CSIRO, which alleged its asserted patent is essential to the 802.11 wireless standard. We have filed an action, also in Texas, against CSIRO seeking a declaratory judgment that CSIRO's patent is invalid and unenforceable and that we and our customers do not infringe the CSIRO

## **Table of Contents**

patent. Similarly, certain customers have asked us to indemnify them in connection with patent infringement lawsuits filed in Texas by Wi-Lan, a Canadian company, who likewise alleges its asserted patents are essential to the 802.11 wireless standard. Marvell is also named as a defendant in those cases. In addition, we filed a declaratory judgment action in California against Wi-Lan asking the court to find that our products do not infringe a certain Wi-Lan patent that Wi-Lan claims read on products that practice IEEE 802.11, 802.16 and/or Bluetooth standards. We believe our products do not infringe any valid and enforceable claims of the asserted CSIRO or Wi-Lan patents under an appropriate construction of these patents' claims and we will vigorously defend ourselves in these matters.

We and/or our subsidiaries are also parties to other claims and litigation proceedings arising in the normal course of business. The impact on us as a result of such claims and litigation cannot currently be ascertained. Any litigation, regardless of the outcome, is time-consuming and expensive to resolve and can divert management time and attention. There can be no assurance that these matters will be resolved in a manner that is not adverse to our business, financial condition, results of operations or cash flows.

### ***We rely upon certain critical information systems for the operation of our business.***

We maintain and rely upon certain critical information systems for the effective operation of our business. These information systems include telecommunications, the Internet, our corporate intranet, various computer hardware and software applications, network communications and e-mail. These information systems are subject to attacks, failures and access denials from a number of potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, communication lines and networking equipment. To the extent that these information systems are under our control, we have implemented security procedures, such as virus protection software and emergency recovery processes, to address the outlined risks. While we believe that our information systems are appropriately controlled and that we have processes in place to adequately manage these risks, security procedures for information systems cannot be guaranteed to be failsafe and our inability to use or access these information systems at critical points in time could unfavorably impact the timely and efficient operation of our business.

### ***Tax benefits we receive may be terminated or reduced in the future, which would increase our costs.***

Under current Bermuda law, we are not subject to tax on our income and capital gains. We have obtained from the Minister of Finance of Bermuda under the Exempt Undertakings Tax Protection Act 1966, as amended, an undertaking that, in the event that Bermuda enacts any legislation imposing tax computed on income and capital gains, those taxes should not apply to us until March 28, 2016. However, it is possible that this exemption would not be extended beyond that date.

The Economic Development Board of Singapore granted Pioneer Status to our wholly-owned subsidiary in Singapore in July 1999. Initially, this tax exemption was to expire after ten years, but the Economic Development Board of Singapore in June 2006 agreed to extend the term to 15 years. As a result, we anticipate that a significant portion of the income we earn in Singapore during this period will be exempt from the Singapore income tax. We are required to meet several requirements as to investment, headcount and activities in Singapore to retain this status. In light of the current economic downturn, we are in discussion with the Economic Development Board of Singapore to amend part of the pioneer conditions for the future years. We intend to come to an agreement that would preserve the 15 year tax exemption status and expect to receive the final amendments from the Economic Development Board of Singapore by July 2009. If our Pioneer Status is terminated early, our financial results could be harmed.

On February 2, 2008, two Israeli subsidiaries, Marvell Software Solutions Israel Ltd. formerly known as Radlan Computer Communications Ltd. and Marvell DSPC Ltd., or Marvell DSPC, merged into Marvell Israel (M.I.S.L) Ltd., or MISL. In December 2008, the Israel Tax Authorities ruled that the merger agreement under §103H of the Israel Tax Ordinance would allow offset of carryforward net operating losses against the taxable income generated by the merged company but limited to 20% of the accumulated net operating losses prior to the merger or no greater than 50% of the taxable income generated by the merged company during the five years following the merger. Any significant changes to our operations in Israel may require a valuation allowance to offset our deferred tax assets which consequently could adversely affect our financial results.

Under the law, including Amendment No. 60 to the law that was published in April 2005, by virtue of the 'approved or benefited enterprise' status granted to certain of its enterprises, the Israeli subsidiaries are entitled to various tax benefits. Two divisions, MISL and Marvell DSPC, have five approved programs and one program under the amended law. The first program was approved for MISL in 1995 and the most recent was approved in 2006. Marvell DSPC has five approved programs and two programs under the amended law; with the first approved in 1990 and the most recent in 2007. The benefit period is generally 10 to 15 years and begins commencing in the first year in which our Israeli subsidiaries earn taxable income from the approved or benefited enterprises provided the maximum period to which it is restricted by law has not elapsed. Income from the approved or benefited enterprises is subject to reduced tax rates ranging between 0% and 10% or tax exemptions for fiscal years 2008 through 2020. As our tax holidays expire, we expect that we will start paying income tax at the statutory tax rate on our operations within these development regions which will adversely impact our effective tax rate.





## **Table of Contents**

During fiscal 2007, our Switzerland subsidiary received a ten-year Federal and Cantonal tax holiday on revenues from research and design and wafer supply trading activities that will expire in 2017. If certain requirements are not met in the initial five-year period, our incentive exemption would be reduced by 50% on the next five-year period of the tax holiday, which would adversely affect our financial results.

### ***We are subject to the risks of owning real property.***

Our U.S. headquarters located in Santa Clara California, and our buildings in Singapore, Malaysia, Switzerland and Shanghai, China subject us to the risks of owning real property, which include:

the possibility of environmental contamination and the costs associated with fixing any environmental problems;

adverse changes in the value of these properties, due to interest rate changes, changes in the neighborhood in which the property is located, or other factors;

the possible need for structural improvements in order to comply with zoning, seismic and other legal or regulatory requirements;

the potential disruption of our business and operations arising from or connected with a relocation due to moving to or renovating the facility;

increased cash commitments for improvements to the buildings or the property or both;

increased operating expenses for the buildings or the property or both;

possible disputes with tenants or other third parties related to the buildings or the property or both; and

the risk of financial loss in excess of amounts covered by insurance, or uninsured risks, such as the loss caused by damage to the buildings as a result of earthquakes, floods and or other natural disasters.

***We are incorporated in Bermuda, and, as a result, it may not be possible for our shareholders to enforce civil liability provisions of the securities laws of the United States.***

We are organized under the laws of Bermuda. As a result, it may not be possible for our shareholders to effect service of process within the United States upon us, or to enforce against us in United States courts judgments based on the civil liability provisions of the securities laws of the United States. There is significant doubt as to whether the courts of Bermuda would recognize or enforce judgments of United States courts obtained against us or our directors or officers based on the civil liability provisions of the securities laws of the United States or any state or hear actions brought in Bermuda against us or those persons based on those laws. The United States and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not based solely on United States federal or state securities laws, would not be automatically enforceable in Bermuda.

***Our Bye-laws contain a waiver of claims or rights of action by our shareholders against our officers and directors, which will severely limit our shareholders' right to assert a claim against our officers and directors under Bermuda law.***

Our Bye-laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against any of our officers and directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties with or for us, other than with respect to any matter involving any fraud or dishonesty on the part of the

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

officer or director. This waiver will limit the rights of our shareholders to assert claims against our officers and directors unless the act complained of involves actual fraud or dishonesty. Thus, so long as acts of business judgment do not involve actual fraud or dishonesty, they will not be subject to shareholder claims under Bermuda law. For example, shareholders will not have claims against officers and directors for a breach of trust, unless the breach rises to the level of actual fraud or dishonesty.

## **Table of Contents**

***Our Bye-laws contain provisions that could delay or prevent a change in corporate control, even if the change in corporate control would benefit our shareholders.***

Our Bye-laws contain change in corporate control provisions, which include:

authorizing the issuance of preferred stock without shareholder approval;

providing for a classified board of directors with staggered, three-year terms; and

requiring a vote of two-thirds of the outstanding shares to approve any change of corporate control in the event the action is not approved by at least 66 2/3% of the directors holding office at the date of the Board meeting to approve the action.

These change in corporate control provisions could make it more difficult for a third party to acquire us, even if doing so would be a benefit to our shareholders.

### **Item 2.      *Unregistered Sales of Equity Securities and Use of Proceeds***

None.

### **Item 3.      *Defaults Upon Senior Securities***

None.

### **Item 4.      *Submission of Matters to a Vote of Security Holders***

None.

### **Item 5.      *Other Information***

None.

### **Item 6.      *Exhibits***

(a) The following exhibits are filed as part of this report:

- 31.1      Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2      Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1\*    Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## Edgar Filing: MARVELL TECHNOLOGY GROUP LTD - Form 10-Q

32.2\* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed filed for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements 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.

MARVELL TECHNOLOGY GROUP LTD.

June 10, 2009  
Date

By: /s/ CLYDE R. HOSEIN  
Clyde R. Hosein  
Chief Financial Officer

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit**

<b>Number</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed filed for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.