

MARVELL TECHNOLOGY GROUP LTD  
Form 10-Q  
June 05, 2014  
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 3, 2014

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: 000-30877

**Marvell Technology Group Ltd.**

(Exact name of registrant as specified in its charter)

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

**Bermuda** **77-0481679**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**Canon s Court, 22 Victoria Street, Hamilton HM 12, Bermuda**  
  
**(441) 296-6395**  
  
(Address of principal executive offices, Zip Code and registrant s telephone number, including area code)

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  (Do not check if a smaller reporting company) 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 30, 2014 was 508.2 million 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 3, 2014 and February 1, 2014</u>	2
<u>Unaudited Condensed Consolidated Statements of Operations for the three months ended May 3, 2014 and May 4, 2013</u>	3
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the three months ended May 3, 2014 and May 4, 2013</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended May 3, 2014 and May 4, 2013</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>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4. <u>Controls and Procedures</u>	32
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	33
Item 1A. <u>Risk Factors</u>	33
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
Item 6. <u>Exhibits</u>	48
<u>Signatures</u>	49
<u>Exhibit Index</u>	50

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

	<b>May 3, 2014</b>	<b>February 1, 2014</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,141,304	\$ 965,750
Short-term investments	1,005,141	1,003,655
Accounts receivable, net	517,074	453,496
Inventories	350,649	347,861
Prepaid expenses and other current assets	56,938	56,952
Deferred income taxes	15,877	11,506
<b>Total current assets</b>	<b>3,086,983</b>	<b>2,839,220</b>
Property and equipment, net	349,321	356,165
Long-term investments	13,456	16,279
Goodwill	2,029,945	2,029,945
Acquired intangible assets, net	41,861	49,035
Other non-current assets	161,406	160,366
<b>Total assets</b>	<b>\$ 5,682,972</b>	<b>\$ 5,451,010</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 409,005	\$ 316,389
Accrued liabilities	146,667	161,762
Accrued employee compensation	141,409	111,408
Deferred income	92,679	61,747
<b>Total current liabilities</b>	<b>789,760</b>	<b>651,306</b>
Non-current income taxes payable	78,136	81,325
Other non-current liabilities	45,589	42,469
<b>Total liabilities</b>	<b>913,485</b>	<b>775,100</b>
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Common shares, \$0.002 par value	1,016	1,005
Additional paid-in capital	2,966,097	2,941,650
Accumulated other comprehensive income	409	597
Retained earnings	1,801,965	1,732,658
<b>Total shareholders' equity</b>	<b>4,769,487</b>	<b>4,675,910</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,682,972</b>	<b>\$ 5,451,010</b>

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

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 3, 2014</b>	<b>May 4, 2013</b>
Net revenue	\$ 957,830	\$ 734,369
Operating costs and expenses:		
Cost of goods sold	493,860	335,438
Research and development	295,363	279,052
Selling and marketing	38,358	39,989
General and administrative	30,573	26,323
Amortization and write-off of acquired intangible assets	6,689	10,686
Total operating costs and expenses	864,843	691,488
Operating income	92,987	42,881
Interest and other income, net	1,925	3,160
Income before income taxes	94,912	46,041
Benefit for income taxes	(4,567)	(7,168)
Net income	\$ 99,479	\$ 53,209
Net income per share:		
Basic	\$ 0.20	\$ 0.11
Diluted	\$ 0.19	\$ 0.11
Weighted average shares:		
Basic	505,105	502,180
Diluted	520,751	505,387
Cash dividend declared per share	\$ 0.06	\$ 0.06

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)**

	<b>Three Months Ended</b>	
	<b>May 3, 2014</b>	<b>May 4, 2013</b>
Net income	\$ 99,479	\$ 53,209
Other comprehensive income, net of tax:		
Net change in unrealized gain/loss on marketable securities	378	1,052
Net change in unrealized gain/loss on auction rate securities	177	81
Net change in unrealized gain/loss on cash flow hedges	(743)	(105)
Other comprehensive income (loss), net	(188)	1,028
Comprehensive income	\$ 99,291	\$ 54,237

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 3, 2014</b>	<b>May 4, 2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 99,479	\$ 53,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,006	24,966
Share-based compensation	29,969	33,513
Amortization and write-off of acquired intangible assets	7,174	10,686
Other expense, net	1,470	2,523
Excess tax benefits from share-based compensation	(44)	(7)
Changes in assets and liabilities:		
Accounts receivable	(63,578)	(40,112)
Inventories	(3,105)	(20,123)
Prepaid expenses and other assets	(2,161)	6,802
Accounts payable	85,128	28,936
Accrued liabilities and other non-current liabilities	(7,134)	(20,081)
Accrued employee compensation	30,001	4,423
Deferred income	30,932	(880)
<b>Net cash provided by operating activities</b>	<b>235,137</b>	<b>83,855</b>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(181,889)	(306,838)
Sales and maturities of available-for-sale securities	182,311	335,771
Investments in privately-held companies	(441)	
Cash paid for acquisition, net		(2,551)
Purchases of technology licenses	(8,111)	(5,860)
Purchases of property and equipment	(16,131)	(20,080)
<b>Net cash provided (used in) by investing activities</b>	<b>(24,261)</b>	<b>442</b>
<b>Cash flows from financing activities:</b>		
Repurchase of common stock		(216,694)
Proceeds from employee stock plans	19,092	19,805
Minimum tax withholding paid on behalf of employees for net share settlement	(24,286)	(9,378)
Dividend payments to shareholders	(30,172)	(30,253)
Payments on technology license obligations		(5,317)
Excess tax benefits from share-based compensation	44	7
<b>Net cash used in financing activities</b>	<b>(35,322)</b>	<b>(241,830)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>175,554</b>	<b>(157,533)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>965,750</b>	<b>751,953</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,141,304</b>	<b>\$ 594,420</b>

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 Basis of Presentation**

***The Company***

Marvell Technology Group Ltd., a Bermuda company (the Company), is a leading global semiconductor provider of high-performance application-specific standard products. The Company's core strength of expertise is the development of complex System-on-a-Chip devices leveraging its extensive technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing, and embedded and stand alone integrated circuits. The majority of the Company's product portfolio leverages the ARM technology portfolio. The Company also develops platforms that it defines as integrated hardware along with software that incorporates digital computing technologies designed and configured to provide an optimized computing solution compared to individual components. The Company's broad product portfolio includes devices for data storage, enterprise-class Ethernet data switching, Ethernet physical-layer transceivers, mobile handsets, connectivity and other consumer electronics.

***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 2015 and 2014 each have a 52-week period.

The unaudited 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 balance sheet as of May 3, 2014, the results of its operations for the three months ended May 3, 2014 and May 4, 2013, its comprehensive income for the three months ended May 3, 2014 and May 4, 2013, and its cash flows for the three months ended May 3, 2014 and May 4, 2013. The February 1, 2014 condensed consolidated balance sheet data was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014, but does not include all disclosures required for annual periods.

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 included in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014 as filed on March 27, 2014 with the Securities and Exchange Commission. The results of operations for the three months ended May 3, 2014 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 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 ongoing basis, the Company evaluates its estimates, including those related to performance-based compensation, revenue recognition, provisions for sales returns and allowances, inventory excess and obsolescence, investment fair values, goodwill and other intangible assets, restructuring, income taxes, litigation and other contingencies. In addition, the Company uses assumptions when employing the Monte Carlo simulation and Black-Scholes valuation models to calculate the fair value of share-based awards that are granted. 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 U.S. dollar.



**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2. Recent Accounting Pronouncements***Accounting Pronouncements Not Yet Effective*

In April 2014, the Financial Accounting Standards Board ( FASB ) issued an amendment to its guidance regarding the reporting requirements of discontinued operations. Under this amended guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. In addition, this amendment requires an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position and additional disclosures about discontinued operations. This amended guidance is effective for annual and interim reporting periods beginning after December 15, 2014. The Company expects this guidance to have an impact on its financial statements only in the event of a future disposition which meets the criteria.

In May 2014, the FASB issued a new standard on the recognition of revenue from contracts with customers, which includes a single set of rules and criteria for revenue recognition to be used across all industries. This standard is effective for annual and interim reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact from the adoption of the standard on its financial statements.

**Note 3. Investments**

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

	May 3, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Short-term investments:</b>				
Available-for-sale:				
Corporate debt securities	\$ 596,691	\$ 3,028	\$ (303)	\$ 599,416
U.S. government and agency debt	290,270	129	(3)	290,396
Asset backed securities	74,525	83	(43)	74,565
Foreign government and agency debt	25,442	25	(42)	25,425
Municipal debt securities	15,301	42	(4)	15,339
Total short-term investments	1,002,229	3,307	(395)	1,005,141
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	16,150		(2,694)	13,456
Total long-term investments	16,150		(2,694)	13,456
Total investments	\$ 1,018,379	\$ 3,307	\$ (3,089)	\$ 1,018,597

February 1, 2014

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Short-term investments:</b>				
Available-for-sale:				
Corporate debt securities	\$ 587,095	\$ 2,789	\$ (370)	\$ 589,514
U.S. government and agency debt	301,423	128	(72)	301,479
Asset backed securities	76,220	89	(38)	76,271
Foreign government and agency debt	20,324	12	(44)	20,292
Municipal debt securities	16,059	44	(4)	16,099
Total short-term investments	1,001,121	3,062	(528)	1,003,655
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	19,150		(2,871)	16,279
Total long-term investments	19,150		(2,871)	16,279
Total investments	\$ 1,020,271	\$ 3,062	\$ (3,399)	\$ 1,019,934

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of May 3, 2014, the Company's investment portfolio included auction rate securities with an aggregate par value of \$16.2 million. Although these securities have continued to pay interest and show an improvement in the underlying collateralization, there is currently limited trading volume. To estimate the fair value of the auction rate securities, the Company uses a discounted cash flow model based on estimated timing and amount of future interest and principal payments. In developing the cash flow model, the Company considers the credit quality and liquidity of the underlying securities and related issuer, the collateralization of underlying security investments and other considerations. The fair value of the auction rate securities as of May 3, 2014 was \$2.7 million less than the par value and was recorded in long-term investments. Based on the Company's balance of approximately \$2.1 billion in cash, cash equivalents and short-term investments, and the fact that the Company continues to generate positive cash flow from operations on a quarterly basis, the Company does not anticipate having to sell these securities below par value and does not have the intent to sell these auction rate securities until recovery. Since the Company considers the impairment to be temporary, the Company recorded the unrealized loss to accumulated other comprehensive income, a component of shareholders' equity.

Gross realized gains and gross realized losses on sales of available-for-sales securities are presented in the following tables (in thousands):

	Three Months Ended	
	May 3, 2014	May 4, 2013
Gross realized gains	\$ 472	\$ 560
Gross realized losses	\$ (25)	\$ (23)
<b>Total net realized gains</b>	<b>\$ 447</b>	<b>\$ 537</b>

The contractual maturities of available-for-sale securities are presented in the following table (in thousands):

	May 3, 2014		February 1, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 306,987	\$ 307,341	\$ 309,543	\$ 309,861
Due between one and five years	689,928	692,499	686,062	688,280
Due over five years	21,464	18,757	24,666	21,793
	\$ 1,018,379	\$ 1,018,597	\$ 1,020,271	\$ 1,019,934

For individual securities that have been in a continuous unrealized loss position, the fair value and gross unrealized loss for these securities aggregated by investment category and length of time in an unrealized position are presented in the following tables (in thousands):

	Less than 12 months		May 3, 2014 12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt securities	\$ 77,768	\$ (290)	\$ 4,796	\$ (13)	\$ 82,564	\$ (303)
U.S. government and agency debt	36,811	(3)			36,811	(3)
Asset backed securities	10,196	(21)	1,907	(22)	12,103	(43)
Foreign government and agency debt	19,417	(42)			19,417	(42)

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

Municipal debt securities	446	(4)			446	(4)
Auction rate securities			13,456	(2,694)	13,456	(2,694)
<b>Total securities</b>	<b>\$ 144,638</b>	<b>\$ (360)</b>	<b>\$ 20,159</b>	<b>\$ (2,729)</b>	<b>\$ 164,797</b>	<b>\$ (3,089)</b>

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Less than 12 months		February 1, 2014 12 months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Loss	Value	Loss	Value	Loss
Corporate debt securities	\$ 110,903	\$ (366)	\$ 2,105	\$ (4)	\$ 113,008	\$ (370)
U.S. government and agency debt	93,118	(72)			93,118	(72)
Asset backed securities	18,865	(19)	1,912	(19)	20,777	(38)
Foreign government and agency debt	14,299	(44)			14,299	(44)
Municipal debt securities	723	(4)			723	(4)
Auction rate securities			16,279	(2,871)	16,279	(2,871)
<b>Total securities</b>	<b>\$ 237,908</b>	<b>\$ (505)</b>	<b>\$ 20,296</b>	<b>\$ (2,894)</b>	<b>\$ 258,204</b>	<b>\$ (3,399)</b>

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

	May 3, 2014	February 1, 2014
<b>Inventories:</b>		
Work-in-process	\$ 239,992	\$ 195,495
Finished goods	110,657	152,366
<b>Total inventories</b>	<b>\$ 350,649</b>	<b>\$ 347,861</b>

	May 3, 2014	February 1, 2014
<b>Property and equipment, net:</b>		
Machinery and equipment	\$ 572,644	\$ 562,038
Buildings	144,320	144,320
Computer software	95,417	96,096
Land	53,373	53,373
Building improvements	49,645	49,645
Leasehold improvements	49,551	49,060
Furniture and fixtures	27,814	27,621
Construction in progress	1,255	2,911
	994,019	985,064
Less: Accumulated depreciation and amortization	(644,698)	(628,899)
<b>Total property and equipment, net</b>	<b>\$ 349,321</b>	<b>\$ 356,165</b>

	May 3, 2014	February 1, 2014
<b>Other non-current assets:</b>		



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

Technology and other licenses	\$ 77,625	\$ 83,521
Deferred tax assets	20,686	19,282
Investments in privately-held companies	15,006	14,565
Prepaid land use rights	13,666	13,744
Deposits	12,546	12,433
Other	21,877	16,821
Total other non-current assets	\$ 161,406	\$ 160,366

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	May 3, 2014	February 1, 2014
<b>Accrued liabilities:</b>		
Accrued rebates	\$ 49,854	\$ 61,616
Accrued royalties	25,041	36,568
Technology license obligations	18,275	18,482
Accrued legal expense	16,771	14,589
Other	36,726	30,507
<b>Total accrued liabilities</b>	<b>\$ 146,667</b>	<b>\$ 161,762</b>

	May 3, 2014	February 1, 2014
<b>Other non-current liabilities:</b>		
Technology license obligations	\$ 25,316	\$ 28,959
Long-term accrued employee compensation	4,645	4,370
Other	15,628	9,140
<b>Other non-current liabilities</b>	<b>\$ 45,589</b>	<b>\$ 42,469</b>

**Accumulated other comprehensive income**

The changes in accumulated other comprehensive income by component are presented in the following tables (in thousands):

	Unrealized Gain (Loss) on Marketable Securities	Unrealized Gain (Loss) on Auction Rate Securities	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balance at February 1, 2014	\$ 2,534	\$ (2,871)	\$ 934	\$ 597
Other comprehensive income before reclassifications	798	177	42	1,017
Amounts reclassified from accumulated other comprehensive income	(420)		(785)	(1,205)
Other comprehensive income (loss)	378	177	(743)	(188)
Balance at May 3, 2014	\$ 2,912	\$ (2,694)	\$ 191	\$ 409

	Unrealized Gain (Loss) on Marketable	Unrealized Gain (Loss) on Auction Rate	Unrealized Gain (Loss) on Cash Flow Hedges	Total
--	--	--	---	-------

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

	Securities	Securities		
Balance at February 2, 2013	\$ 2,742	\$ (2,681)	\$ 1,087	\$ 1,148
Other comprehensive income before reclassifications	1,428	81	991	2,500
Amounts reclassified from accumulated other comprehensive income	(376)		(1,096)	(1,472)
Other comprehensive income (loss)	1,052	81	(105)	1,028
Balance at May 4, 2013	\$ 3,794	\$ (2,600)	\$ 982	\$ 2,176

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The amounts reclassified from accumulated other comprehensive income by components are presented in the following table (in thousands):

Affected Line Item in the	Three Months Ended	
	May 3, 2014	May 4, 2013
<b>Statement of Operations</b>		
Available-for-sale securities:		
Interest and other income, net	\$ 420	\$ 376
Cash flow hedges:		
Cost of goods sold	46	61
Research and development	675	945
Selling and marketing	62	82
General and administrative	2	8
Total	\$ 1,205	\$ 1,472

**Net income per share**

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

	Three Months Ended	
	May 3, 2014	May 4, 2013
<b>Numerator:</b>		
Net income	\$ 99,479	\$ 53,209
<b>Denominator:</b>		
Weighted average shares basic	505,105	502,180
Effect of dilutive securities:		
Share-based awards	15,646	3,207
Weighted average shares diluted	520,751	505,387
Net income per share:		
Basic	\$ 0.20	\$ 0.11
Diluted	\$ 0.19	\$ 0.11

	Three Months Ended	
	May 3, 2014	May 4, 2013
<b>Anti-dilutive potential shares:</b>		
Weighted average shares outstanding from stock options	21,453	40,631

Weighted average exercise price	\$ 17.86	\$ 15.24
---------------------------------	----------	----------

Anti-dilutive potential shares for stock options are excluded from the calculation of diluted earnings per share for the periods reported above because either their exercise price exceeded the average market price during the period or certain stock options with exercise prices less than the average market price were determined to be anti-dilutive based on applying the treasury stock method. The anti-dilutive shares reported above also include shares from stock options that contain market conditions for vesting since the market value of the Company's stock as of May 3, 2014 and May 4, 2013 was lower than the required market condition. For the three months ended May 3, 2014 and May 4, 2013, there were 2.4 million and 2.8 million anti-dilutive shares, respectively, from stock options that contain market conditions.

**Note 5. Derivative Financial Instruments**

The Company manages some of its foreign currency exchange rate risk through the purchase of foreign currency exchange contracts that hedge against the short-term effect of currency fluctuations. Beginning in fiscal 2015, the Company entered into contracts to hedge the Chinese yuan in addition to the Israeli shekel as operating expenses in China continue to grow. The Company's policy is to enter into foreign currency forward contracts with maturities generally less than 12 months that mitigate the effect of rate fluctuations on certain local currency denominated operating expenses. All derivative instruments are recorded at fair value in either prepaid expenses and other current assets or accrued liabilities. The Company reports cash flows from derivative instruments in cash flows from operating activities. The Company uses quoted prices to value its derivative instruments.

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The notional amounts of outstanding forward contracts were as follows (in thousands):

	<b>Buy Contracts</b>	
	<b>May 3, 2014</b>	<b>February 1, 2014</b>
Israeli shekel	\$ 57,793	\$ 39,670
Chinese yuan	55,122	
Euro	5,821	5,718
Swedish krona	1,273	3,709
	<b>\$ 120,009</b>	<b>\$ 49,097</b>

*Cash Flow Hedges.* The Company designates and documents its foreign currency forward exchange contracts as cash flow hedges for certain operating expenses denominated in Israeli shekels, Chinese yuan and Swedish krona. The Company evaluates and calculates the effectiveness of each hedge at least quarterly. The effective change is recorded in accumulated other comprehensive income and is subsequently reclassified to operating expense when the hedged expense is recognized. Ineffectiveness is recorded in interest and other income, net.

*Other Foreign Currency Forward Contracts.* The Company enters into foreign currency forward exchange contracts to hedge certain assets and liabilities denominated in various foreign currencies that it does not designate as hedges for accounting purposes. 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 interest and other income, net.

The fair value of foreign currency exchange contracts was not significant as of any period presented.

**Note 6. Fair Value Measurements**

Fair value is an exit price representing the amount that would be received in the sale of 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, the accounting guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

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

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.

The Company's Level 1 assets include institutional money-market funds that are classified as cash equivalents and marketable investments in U.S. government and agency debt, which are valued primarily using quoted market prices. The Company's Level 2 assets include its marketable investments in time deposits, corporate debt securities, foreign government and agency debt, municipal debt securities and asset backed securities as the market inputs to value these instruments consist of market yields, reported trades and broker/dealer quotes, which are corroborated with observable market data. In addition, forward contracts and the severance pay fund are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments. The Company's Level 3 assets include its investments in auction rate securities, which are classified within Level 3 because there are currently no active markets for the auction rate

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

securities and consequently the Company is unable to obtain independent valuations from market sources. Therefore, the auction rate securities are valued using a discounted cash flow model. 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 0.2% of total assets as of May 3, 2014.

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The tables below set forth, by level, the Company's assets that were accounted for at fair value as of May 3, 2014 and February 1, 2014. The tables do not include assets and liabilities that are measured at historical cost or any basis other than fair value (in thousands):

	Level 1	Level 2	Level 3	Portion of Carrying Value Measured at Fair Value at May 3, 2014
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
U.S. government and agency debt	\$ 15,800	\$	\$	\$ 15,800
Money market funds	6,893			6,893
Time deposits		209,645		209,645
Municipal debt securities		2,300		2,300
Corporate debt securities		2,100		2,100
Short-term investments:				
U.S. government and agency debt	290,396			290,396
Corporate debt securities		599,416		599,416
Asset backed securities		74,565		74,565
Foreign government and agency debt		25,425		25,425
Municipal debt securities		15,339		15,339
Prepaid expenses and other current assets:				
Foreign currency forward contracts		650		650
Long-term investments:				
Auction rate securities			13,456	13,456
Other non-current assets:				
Severance pay fund		2,194		2,194
<b>Total assets</b>	<b>\$ 313,089</b>	<b>\$ 931,634</b>	<b>\$ 13,456</b>	<b>\$ 1,258,179</b>
Liabilities				
Accrued liabilities:				
Foreign currency forward contracts	\$	\$ 422	\$	\$ 422



**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Level 1	Level 2	Level 3	Portion of Carrying Value Measured at Fair Value at February 1, 2014
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
U.S. government and agency debt	\$ 11,999	\$	\$	\$ 11,999
Money market funds	2,804			2,804
Time deposits		247,958		247,958
Municipal debt securities		4,800		4,800
Corporate debt securities		3,400		3,400
Short-term investments:				
U.S. government and agency debt	301,479			301,479
Corporate debt securities		589,514		589,514
Asset backed securities		76,271		76,271
Foreign government and agency debt		20,292		20,292
Municipal debt securities		16,099		16,099
Prepaid expenses and other current assets:				
Foreign currency forward contracts		1,012		1,012
Long-term investments:				
Auction rate securities			16,279	16,279
Other non-current assets:				
Severance pay fund		2,193		2,193
<b>Total assets</b>	<b>\$ 316,282</b>	<b>\$ 961,539</b>	<b>\$ 16,279</b>	<b>\$ 1,294,100</b>
Liabilities				
Accrued liabilities:				
Foreign currency forward contracts	\$	\$ 26	\$	\$ 26

The following table summarizes the change in fair value for Level 3 assets (in thousands):

	Three Months Ended	
	May 3, 2014	May 4, 2013
Beginning balance	\$ 16,279	\$ 16,769
Sales and redemptions	(3,000)	(300)
Unrealized losses included in accumulated other comprehensive income	177	81
Ending balance	\$ 13,456	\$ 16,550

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 7. Acquired Intangible Assets, Net**

The carrying amount of acquired intangible assets, net, are as follows (in thousands):

			May 3, 2014 Accumulated Amortization	Net Carrying Amount		February 1, 2014 Accumulated Amortization	Net Carrying Amount
	Range of Useful Lives	Gross Carrying Amounts	and Write-Offs		Gross Carrying Amounts	and Write-Offs	
Purchased technology	4 -6 years	\$ 49,240	\$ (22,879)	\$ 26,361	\$ 49,240	\$ (20,634)	\$ 28,606
Core technology	5 - 8 years	2,350	(1,672)	678	2,350	(1,583)	767
Trade names	5 years	1,300	(632)	668	1,300	(568)	732
Customer intangibles	5 - 6 years	28,600	(14,446)	14,154	28,600	(13,056)	15,544
IPR&D					3,386		3,386
Total intangible assets, net		\$ 81,490	\$ (39,629)	\$ 41,861	\$ 84,876	\$ (35,841)	\$ 49,035

The Company recorded a charge to write-off \$3.4 million of IPR&D in the three months ended May 3, 2014, upon the Company's decision to discontinue the related project.

Based on the identified intangible assets recorded at May 3, 2014, the future amortization expense for the next five fiscal years is as follows (in thousands):

Fiscal Year	
Remainder of fiscal 2015	\$ 11,163
2016	12,212
2017	11,027
2018	5,599
2019	1,860
Thereafter	
	\$ 41,861

**Note 8. Restructuring**

In connection with ongoing evaluations of its business, the Company decided to streamline its operations, primarily in Israel to align with its overall strategic plan and to discontinue the development of a product it originally acquired from a business that it previously purchased. As a result, the Company recorded a total \$8.5 million restructuring charge in the three months ended May 3, 2014. The charge included \$4.6 million for severance costs and \$0.5 million for other exit-related costs primarily associated with previous facility closures and the write-off of equipment. In addition, the charge included \$3.4 million to write off an acquired intangible asset due to the Company's decision to discontinue the related project.

During the three months ended May 3, 2014, the Company also continued to make payments and incur ongoing operating expenses related to vacated facilities under previous restructure actions.

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

The following table presents details of restructuring charges by functional line item (in thousands):

	<b>Three Months Ended</b>	
	<b>May 3, 2014</b>	<b>May 4, 2013</b>
Research and development	\$ 4,682	\$
Selling and marketing	48	
General and administrative	358	228
Write-off of acquired intangible assets	3,386	
	\$ 8,474	\$ 228

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth a reconciliation of the beginning and ending restructuring liability balances by each major type of costs associated with the restructuring charges for the three months ended May 3, 2014 (in thousands):

	<b>Severance and Related Costs</b>	<b>Facilities and Related Costs</b>	<b>Other Exit-Related Costs</b>	<b>Total</b>
Balance at February 1, 2014	\$ 51	\$ 2,383	\$ 19	\$ 2,453
Restructuring charges	4,617	444	10	5,071
Net cash payments	(786)	(387)	(29)	(1,202)
Balance at May 3, 2014	\$ 3,882	\$ 2,440	\$	\$ 6,322

The severance costs included in the table above are expected to be paid in the second quarter of fiscal 2015. The facility and related costs primarily represent an adjustment to the estimated sublease rentals related to the lease obligation of a vacated facility. The balance at May 3, 2014 for facility and related costs includes remaining payments under lease obligations related to vacated facilities under previous restructure actions which are expected to be paid through fiscal 2018.

**Note 9. Income Tax**

The income tax benefit for the three months ended May 3, 2014 included the current income tax liability of \$5.7 million, which was offset by tax benefits of \$2.5 million from a net reduction in unrecognized tax benefits and \$7.8 million from an increase in the net deferred tax assets because of the Company's continued discussions with the Singapore tax authorities that resulted in an agreement for a major portion of the pre-tax income to be taxed at a new Development and Expansion Incentive. The net reduction in unrecognized tax benefits arose from the release of \$4.9 million due to expiration of the statute of limitations, which was reduced by an increase in current unrecognized tax benefit estimates of \$1.1 million and a \$1.3 million tax expense related to the fiscal year 2014 tax return of a non-U.S. jurisdiction.

The income tax benefit for the three months ended May 4, 2013 included the current income tax liability of \$1.8 million and \$0.7 million in settlements of audits in non-U.S. jurisdictions, which was more than offset by a net reduction in unrecognized tax benefits of \$9.7 million for the three months ended May 4, 2013. The net reduction in unrecognized tax benefits primarily arose from the expiration of statute of limitations and from the settlement of two audits in non-U.S. jurisdictions, less increases in current unrecognized tax benefit estimates.

It is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to foreign currencies within the next 12 months. Excluding these factors, uncertain tax positions may decrease by as much as \$18 million from the lapse of the statutes of limitation in various jurisdictions during the next 12 months.

The Company operates under tax incentives in certain countries, which may be extended if certain additional requirements are satisfied. The tax incentives are conditional upon meeting certain employment and investment thresholds. The impact of these tax incentives decreased foreign taxes by \$3.3 million for the three months ended May 3, 2014 and \$2.1 million for the three months ended May 4, 2013. The benefit of the tax incentives on net income per share was less than \$0.01 per share for the three months ended May 3, 2014 and May 4, 2013.

**Note 10. Commitments and Contingencies****Purchase Commitments**

Under the Company's manufacturing relationships with its foundry partners, cancellation of all outstanding purchase orders are allowed but require payment of all costs and expenses incurred through the date of cancellation. As of May 3, 2014, these foundries had incurred

approximately \$312.6 million of manufacturing costs and expenses relating to the Company's outstanding purchase orders.

***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 as well as the attorneys' fees and costs. The Company's indemnification obligations generally do not expire after termination or expiration of the agreement containing the indemnification obligation. Generally, there are limits on and exceptions to the Company's potential liability for indemnification. 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. The maximum potential amount of any future payments that the Company could be required to make under these indemnification obligations could be significant.

---

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Contingencies**

The Company and certain of its subsidiaries are currently parties to various legal proceedings, including those noted in this section. The legal proceedings and claims described below could result in substantial costs and could divert the attention and resources of the Company's management. Litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling in litigation could require the Company to pay damages, one-time license fees or ongoing royalty payments, and 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, any of which could adversely affect financial results in future periods. The Company believes that its products do not infringe valid and enforceable claims and it will continue to conduct a vigorous defense in these proceedings. However, 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.

As of May 3, 2014, the Company has a \$17.3 million accrued liability related to certain legal proceedings described below in this section. The amount recorded does not relate to the litigation with Carnegie Mellon University (CMU). Other than for the matters that the Company has recognized in the consolidated financial statements, it has not recorded any amounts for contingent losses associated with the matters described below based on its belief that losses, while reasonably possible, are not probable. Unless otherwise stated, the Company is currently unable to predict the final outcome of these lawsuits and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

*Carnegie Mellon University Litigation.* On March 6, 2009, CMU filed a complaint in the U.S. District Court for the Western District of Pennsylvania naming Marvell Semiconductor, Inc. (MSI) and the Company as defendants and alleging patent infringement. CMU has asserted U.S. Patent Nos. 6,201,839 and 6,438,180 (collectively, the CMU patents in suit), which relate to read-channel integrated circuit devices and the hard disk drive (HDD) incorporating such devices. A jury trial began on November 26, 2012. On December 26, 2012, a jury delivered a verdict that found the CMU patents in suit were literally and willfully infringed and valid, and awarded past damages in the amount of \$1.17 billion. CMU sought in its post-trial motions enhanced damages up to 3 times the jury verdict, pre-judgment interest up to \$322 million, post-judgment interest, supplemental damages, attorneys' fees, and an injunction and/or ongoing royalties. Post-trial motions were heard on May 1 and 2, 2013. On June 26, 2013, the District Court denied CMU's post-trial motion for attorney fees without prejudice. On August 23, 2013, the District Court denied the Company's motion for mistrial. On September 23, 2013, the District Court denied the Company's motion for judgment as a matter of law or a new trial on non-infringement, invalidity and other non-damages issue as well as the Company's motion for reduced damages. On the same day, the District Court granted-in-part CMU's motion for a finding of willful infringement and enhanced damages, reserving its further rulings on any enhancement of the verdict for a separate opinion. On December 6, 2013, CMU filed a motion to permit registration of judgment and a motion for supplemental relief including a request to enjoin future share repurchases, any leveraged buyout or similar asset leveraging transaction, and dividends (including the dividend scheduled for December 23, 2013), in the absence of a court approved bond or other security. On December 23, 2013, the District Court denied the motions. On January 8, 2014, CMU filed a motion for telephonic status conference, which was denied on January 28, 2014. On January 14, 2014, the District Court denied the Company's post-trial motion on laches. On March 31, 2014, the District Court rejected CMU's motion for an injunction. The District Court also denied CMU's request for pre-judgment interest, and substantially scaled back CMU's request for enhanced damages. Based on these decisions, the Court calculated the damages including enhancement to total approximately \$1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. On May 7, 2014, the District Court entered final judgment, from which the Company filed a notice of appeal on May 14, 2014. The Court has required us to report ongoing royalties under the current judgment. Based on the royalty rate assessed by the District Court, such additional royalties through May 3, 2014 would be approximately \$250 million.

The Company and MSI believe that the evidence and the law do not support the jury's findings of infringement, validity and the award of damages and do not believe a material loss is probable. The Company believes that there are strong grounds for appeal and the Company and MSI intend to vigorously challenge the District Court's judgment via an appeal to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. The Company believes the low end of the possible range of loss is zero, but it cannot reasonably estimate the upper range of the possible loss, as a number of factors could significantly change the assessment of damages.

*USEI Litigation.* On October 9, 2009, U.S. Ethernet Innovations, LLC (USEI) filed a complaint in the U.S. District Court for the Eastern District of Texas, in which USEI has accused a number of system manufacturers, including the Company's customers, of patent infringement (the USEI litigation). Specifically, USEI has asserted that these customers infringe U.S. Patent Nos. 5,307,459, 5,434,872, 5,732,094 and 5,299,313, which relate to Ethernet technologies. The complaint seeks unspecified damages and an injunction.



**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On May 4, 2010, MSI filed a motion to intervene in the USEI litigation, which was granted on May 19, 2010. On July 13, 2010, the District Court issued an order granting the defendants' motion to transfer the action to the U.S. District Court for the Northern District of California; the case was formally transferred on August 23, 2010. On September 14, 2011, USEI withdrew its allegations against MSI for the 459 patent. The court issued a first claim construction ruling on January 31, 2012 and a supplemental claim construction ruling on August 29, 2012. On August 16, 2013, the District Court granted defendants' summary judgment motion to preclude the plaintiff from recovering certain pre-suit damages. Trial is scheduled for January 5, 2015.

*Lake Cherokee I Patent Litigation.* On June 30, 2010, Lake Cherokee Hard Drive Technologies, L.L.C. ( Lake Cherokee ) filed a complaint in the U.S. District Court for the Eastern District of Texas. The complaint alleges infringement of U.S. Patent Nos. 5,844,738 and 5,978,162 (collectively, the Lake Cherokee patents ). The Lake Cherokee patents purportedly relate to read-channel integrated circuit devices and to certain HDD products incorporating such devices. A claim construction ruling was issued on August 6, 2012. Lake Cherokee's damages claim, which excluded non-U.S. related sales as a result of the District Court's summary judgment ruling, was approximately \$193 million at the start of trial. The case proceeded to trial on August 12, 2013. On August 16, 2013, an Eastern District of Texas jury returned a verdict and unanimously found that MSI did not infringe the Lake Cherokee patents. On the same day, the Court entered judgment in MSI's favor. Lake Cherokee has since moved for a new trial and the briefing was concluded on October 28, 2013. The District Court has not ruled on Lake Cherokee's post-trial motion.

*Lake Cherokee II Patent Litigation.* On September 5, 2013, Lake Cherokee filed suit in the U.S. District Court for the Eastern District of Texas against Marvell Asia Pte., Ltd. ( MAPL ) and several of the Company's storage customers, alleging infringement of U.S. Patent Nos. 5,844,738 and 5,978,162 (the same Lake Cherokee patents found not infringed in Lake Cherokee I). A claim construction hearing is currently set for October 30, 2014, and trial is currently scheduled to start on June 18, 2015.

*Lake Cherokee III Patent Litigation.* On September 25, 2013, Lake Cherokee filed suit in the U.S. District Court for the Eastern District of Texas against MSI, MAPL and two of the Company's customers, alleging infringement of U.S. Patent No. 5,583,706, which purportedly relates to certain HDD related technologies. MSI answered the complaint on November 29, 2013. A claim construction hearing is set for August 5, 2014 and trial is currently scheduled to start on April 13, 2015.

*Azure Networks Litigation.* On March 22, 2011, Azure Networks, LLC and Tri-County Excelsior Foundation filed suit in the U.S. District Court for the Eastern District of Texas against MSI and eight other companies. The Complaint asserts U.S. Patent No. 7,756,129 against MSI's Bluetooth products. MSI filed its answer and counterclaims on July 20, 2011. On November 2, 2012, MSI and the other defendants filed a motion for summary judgment of invalidity, which was denied. A claim construction hearing was held on December 20, 2012. On January 15, 2013, the magistrate judge issued a claim construction ruling. On May 20, 2013, the District Court issued an order denying plaintiff's motion for reconsideration and adopted the magistrate judge's claim construction ruling. On May 30, 2013, the District Court entered a judgment of non-infringement. On June 24, 2013, Azure appealed, and the appeal has been briefed. Oral argument before a Federal Circuit panel was held on April 11, 2014.

*Power Management Systems Litigation.* On August 22, 2011, Power Management Systems LLC ( PMS ), a subsidiary of Acacia Research Corp., filed a complaint against the Company's subsidiary Marvell Semiconductor, Ltd. ( MSL ) and other defendants, in the U.S. District Court for the District of Delaware. The complaint asserts U.S. Patent No. 5,504,909, which relates to a power management apparatus, against various products. The complaint seeks unspecified damages. On October 17, 2011, PMS amended its complaint by substituting MSL with MSI. MSI filed its answer and counterclaims on November 4, 2011. A claim construction hearing was held on January 18, 2013, and a ruling was issued on May 30, 2013. On June 14, 2013, the District Court entered a judgment of non-infringement. On June 17, 2013, PMS appealed, and the appeal has been briefed. The Federal Circuit Court of Appeals heard oral argument on January 10, 2014, and affirmed the district court's rulings on January 14, 2014. The deadline for PMS to appeal to the United States Supreme Court passed in mid-April 2014 without PMS taking any further action.

*France Telecom Litigation.* On June 26, 2012, France Telecom S.A. filed a complaint against MSI in the U.S. District Court for the Southern District of New York. The complaint asserts U.S. Patent No. 5,446,747 against MSI's communications processors and thin modems. The complaint seeks unspecified damages as well as injunctive relief. MSI answered the complaint on July 18, 2012 and August 1, 2012. On July 30, 2012, MSI filed a motion to transfer the lawsuit to the U.S. District Court for the Northern District of California. On September 17, 2012, the Court granted MSI's motion and transferred the case to the Northern District of California. A claim construction hearing was held on



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

December 13, 2013. On April 14, 2014, the Court denied MSI's motion for summary judgment of invalidity, and granted MSI's summary judgment motion concerning certain damages preclusion. Trial is scheduled for September 15, 2014.

*Freescale Litigation.* On July 6, 2012, Freescale Semiconductor, Inc. (Freescale) filed a complaint against MSI in the U.S. District Court for the Western District of Texas, and amended the complaint on February 4, 2013. On January 4, 2013, three of the Company's subsidiaries, MSI, Marvell International Ltd. and Marvell World Trade Ltd., filed a complaint against Freescale in the U.S. District Court for the Western District of Texas, and amended the complaint on January 14, 2013. On April 11, 2014, the Court dismissed both of the above two cases with prejudice pursuant to a settlement and patent license agreement. The settlement did not have a significant impact on the Company's financial statements.

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Progressive Semiconductor Solutions Patent Litigation.* On September 30, 2013, Progressive Semiconductor Solutions LLC ( PSS ) filed a complaint in the Central District of California against MSI and another defendant, alleging infringement of U.S. Patent Nos. 6,473,349 (the 349 patent ) and 6,862,208 (the 208 patent ). The patents purportedly relate to certain memory devices. On November 19, 2013, PSS filed an amended complaint. MSI answered the first amended complaint on November 22, 2013. A claim construction hearing is scheduled to occur on or before August 11, 2014 and trial is scheduled to start on March 3, 2015. On March 3, 2014, the District Court dismissed MSI without prejudice. On March 4, 2014, PSS filed a new complaint against MSI, alleging infringement of the 349 patent but not the 208 patent. A claim construction hearing is currently scheduled to be held by August 11, 2014. Trial is currently scheduled for March 17, 2015.

*Vantage Point Technology Patent Litigation.* On November 21, 2013, Vantage Point Technology, Inc. ( VPT ) filed suit against a third party defendant for patent infringement relating to processor technology. On February 3, 2014, VPT filed an amended complaint against the third party and added MSI as an additional defendant. The complaint seeks unspecified damages. A claim construction hearing is currently scheduled for January 27, 2015. The first trial in the series of VPT cases against various defendants is currently scheduled for July 13, 2015.

*Voss Litigation.* On April 7, 2014, Lee Voss ( Voss ) filed an action asserting putative class action claims on behalf of the Company s shareholders and derivative claims ostensibly on behalf of the Company in the United States District Court for the Northern District of California, San Jose Division. The complaint alleges that certain officers and directors of the Company breached their fiduciary duties by causing or allowing the Company to engage in the purported willful infringement of certain patents asserted against it in litigation by CMU and by failing to institute adequate internal controls, resulting in an adverse verdict. Additionally, the complaint alleges unjust enrichment and a breach of the duty of honest services by three of the officers. The Company is named as a nominal defendant. Voss requests damages and restitution in unspecified amounts, equitable and/or injunctive relief, and the costs and fees of bringing the action. The action is in the preliminary stages, and discovery has not commenced. The Company s responsive pleading is due July 23, 2014.

*Bandspeed Litigation.* On May 9, 2014, Bandspeed, Inc. filed suit against MSI, alleging infringement of U.S. Patent Nos. 7,027,418; 7,570,614; 7,477,624; 7,903,608; 8,542,643, purportedly related to certain Bluetooth technology. The complaint seeks unspecified damages.

***Surety Bond***

On May 14, 2014, the Company filed a Notice of Appeal to appeal the final judgment issued by the District Court in the CMU litigation. In order to stay the execution of the final judgment pending its appeal, the Company filed a supersedeas bond for \$1.54 billion with the District Court. The bond was issued by a consortium of sureties authorized by the U.S. Treasury. If the judgment is affirmed after the completion of all appellate proceedings, and the Company does not thereafter fully satisfy the judgment within thirty days, the sureties are obligated under the bond to make payment to CMU. In support of the bond, the Company entered into separate indemnity agreements with each of the sureties to indemnify the sureties from all costs and payments made under the bond. The indemnity agreements did not require collateral to be posted at the time of the issuance of the bond. Therefore no cash or other Company assets are considered restricted as of the date of this filing. However, the indemnity agreements provide that each of the sureties have the right to demand to be placed in funds or call for collateral under pre-defined events. The indemnity agreements will remain outstanding for as long as the underlying bond remains outstanding.

***Indemnities, Commitments and Guarantees***

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities may include intellectual property indemnities to the Company s customers in connection with the sales of its products, indemnities for liabilities associated with the infringement of other parties technology based upon the Company s products, indemnities for general commercial obligations, indemnities to various lessors in

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

connection with facility leases for certain claims arising from such facility or lease, and indemnities to directors and officers of the Company to the maximum extent permitted under the laws of Bermuda. In addition, the Company has contractual commitments to various customers, which could require the Company to incur costs to repair an epidemic defect with respect to its products outside of the normal warranty period if such defect were to occur. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. Some of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential future payments that the Company could be obligated to make. In general, the Company does not record any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets as the amounts cannot be reasonably estimated and are not considered probable. The Company does, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable.

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

Activity under the Company's stock option plans for the three months ended May 3, 2014 is summarized below (in thousands, except per share amounts):

	Time-Based Options		Market-Based Options		Total	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance at February 1, 2014	49,156	\$ 13.40	2,623	\$ 15.43	51,779	\$ 13.51
Granted	3,712	\$ 15.84		\$	3,712	\$ 15.84
Exercised	(1,797)	\$ 10.62		\$	(1,797)	\$ 10.62
Canceled/Forfeited	(1,687)	\$ 15.32	(329)	\$ 15.43	(2,016)	\$ 15.34
Balance at May 3, 2014	49,384	\$ 13.62	2,294	\$ 15.43	51,678	\$ 13.70
Vested or expected to vest at May 3, 2014	45,766	\$ 13.72				
Exercisable at May 3, 2014	25,024	\$ 15.04				

For time-based stock options vested and expected to vest at May 3, 2014, the aggregate intrinsic value was \$144.2 million and the weighted average remaining contractual term was 6.3 years. For time-based stock options exercisable at May 3, 2014, the aggregate intrinsic value was \$66.9 million and the weighted average remaining contractual term was 4.1 years. The aggregate intrinsic value of stock options exercised during the three months ended May 3, 2014 and May 4, 2013 was \$9.4 million and \$11.1 million, respectively. There was no aggregate intrinsic value for market-based stock options at May 3, 2014 and the weighted average remaining contractual term of market-based stock options vested and expected to reach the end of the vesting period at May 3, 2014 was 7.0 years. The Company's closing stock price of \$15.83 as reported on the NASDAQ Global Select Market for all in-the-money options as of May 2, 2014 was used to calculate the aggregate intrinsic value.

As of May 3, 2014, the unamortized compensation expense for time-based stock options was \$67.7 million and market-based stock options were fully amortized in fiscal 2014. The unamortized compensation expense for time-based stock options will be amortized on a straight-line basis and is expected to be recognized over a weighted average period of 2.9 years.

Included in the following table is activity related to the non-vested portion of the restricted stock units as follows (in thousands, except for share prices):

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

	Time-Based		Performance-Based		Total	
	Number of	Weighted	Number of	Weighted	Number of	Weighted
	Shares	Average	Shares	Average	Shares	Average
		Grant Date		Grant Date		Grant Date
		Fair Value		Fair Value		Fair Value
Balance at February 1, 2014	11,254	\$ 14.11	100	\$ 10.52	11,354	\$ 14.08
Granted	4,588	\$ 15.44	757*	\$ 15.51*	5,345	\$ 15.45
Vested	(5,172)	\$ 14.06	(3)	\$ 10.52	(5,175)	\$ 14.06
Canceled/Forfeited	(272)	\$ 13.74	(97)	\$ 10.52	(369)	\$ 12.90
Balance at May 3, 2014	10,398	\$ 14.77	757	\$ 15.51	11,155	\$ 14.82

\* Amounts represent the target number of restricted stock units. Up to 200% of the target restricted stock units may vest if the maximum level for financial and strategic goals is achieved.

---

**Table of Contents**

**MARVELL TECHNOLOGY GROUP LTD.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The aggregate intrinsic value of restricted stock units expected to vest as of May 3, 2014 was \$157.9 million. The number of restricted stock units that are expected to vest is 10.0 million shares.

As of May 3, 2014, unamortized compensation expense related to restricted stock units was \$140.7 million. The unamortized compensation expense for restricted stock units will be amortized on a straight-line basis and is expected to be recognized over a weighted average period of 2.1 years.

***Executive Performance Awards***

In April 2014, the Company granted performance-based equity awards to each of our executive officers which are based on their achievement of certain performance goals in fiscal 2015 and 2016. These equity awards include restricted stock units which vest based on financial performance criteria ( Financial Performance RSU ) and restricted stock units which vest based on both financial performance criteria and individual strategic goals ( Strategic Performance Award ). The Financial Performance RSUs will be earned based on the achievement of revenue and modified non-GAAP operating income that have been established at threshold, target and maximum levels, and are subject to the downward discretion of the Executive Compensation Committee of the Board of Directors. Each Financial Performance RSU will vest 50% on the first anniversary of the commencement date based on achievement of fiscal 2015 financial performance criteria and 50% on the second anniversary of the vesting commencement date based on the achievement of fiscal 2016 financial performance criteria. The Strategic Performance Awards will vest based on achievement at the threshold level of either the revenue or modified non-GAAP operating income objective established for the Financial Performance RSU, in addition to the achievement of additional individual strategic goals. Each Strategic Performance Award will vest 50% on the first anniversary of the commencement date based on achievement of fiscal 2015 individual strategic goals and 50% on second anniversary date based on the achievement of the fiscal 2016 individual strategic goals.

***Employee Stock Purchase Plan***

During the three months ended May 3, 2014 and May 4, 2013, the Company issued no shares under the 2000 Employee Stock Purchase Plan, as amended and restated (the ESPP ). As of May 3, 2014, there was \$14.4 million of unrecognized compensation cost related to the ESPP.

***Share Repurchase Program***

The Company had no repurchases of its common shares during the three months ended May 3, 2014. During the three months ended May 4, 2013, the Company repurchased 19.9 million of its common shares for \$200.2 million in cash. The repurchased shares were retired immediately after the repurchases were completed. The Company records all repurchases, as well as investment purchases and sales, based on trade date. As of May 3, 2014, a total of 216.9 million cumulative shares have been repurchased under the Company's share repurchase program for a total \$2.7 billion in cash and there was \$258.4 million remaining available for future share repurchases.

***Dividends***

Cash dividends of \$0.06 per share were paid for a total of \$30.2 million in the three months ended May 3, 2014. Cash dividends of \$0.06 per share were paid for a total of \$30.3 million in the three months ended May 4, 2013.

On May 22, 2014, the Company announced that its board of directors declared a cash dividend of \$0.06 per share to be paid on July 2, 2014 to shareholders of record as of June 12, 2014.

Future payment of a regular quarterly cash dividend on the Company's common shares will be subject to, among other things, the best interests of the Company, the Company's results of operations, cash balances and future cash requirements, financial condition, statutory requirements under Bermuda law and other factors that the Company's board of directors may deem relevant. The Company's dividend payments may change from time to time, and the Company cannot provide assurance that it will continue to declare dividends at all or in any particular amounts. In addition, developments in ongoing litigation could affect the Company's ability to make a dividend payment on a declared payment date until such time as the Company can meet statutory requirements under Bermuda law.



**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 12. Share-Based Compensation**

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

	<b>Three Months Ended</b>	
	<b>May 3, 2014</b>	<b>May 4, 2013</b>
Cost of goods sold	\$ 2,299	\$ 1,867
Research and development	20,368	23,279
Selling and marketing	2,928	3,392
General and administrative	4,374	4,975
	<b>\$ 29,969</b>	<b>\$ 33,513</b>

Share-based compensation capitalized in inventory was \$1.4 million at May 3, 2014 and \$1.7 million at February 1, 2014.

***Valuation Assumptions***

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

	<b>Three Months Ended</b>	
	<b>May 3, 2014</b>	<b>May 4, 2013</b>
<b>Time-based Stock Options:</b>		
Weighted average fair value	\$ 4.64	\$ 3.41
Expected volatility	36%	45%
Expected term (in years)	5.0	5.0
Risk-free interest rate	1.6%	0.8%
Expected dividend yield	1.6%	2.4%

Under the ESPP, there were no stock purchase rights granted in the three months ended May 3, 2014 and May 4, 2013.

**Table of Contents****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 within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are subject to the safe harbor created by those sections. 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, will and similar expressions identify such forward-looking statements. We make a number of forward-looking statements that relate to future periods and include statements relating to our anticipation that the rate of new orders and shipments may vary significantly from quarter to quarter; our expectations regarding market acceptance of our products using our innovative solutions; our expectations regarding sustained investments leading to new growth opportunities; our expectations regarding the declaration of, timing of, funding of, payment of and quarterly amount of dividends; our expectations regarding industry trends; our expectations regarding our inventory levels; our expectations regarding the amount of our future sales in Asia; our expectations regarding competition; our expectations relating to the protection of our intellectual property; our expectations regarding the amount of customer concentration in the future; our plans and expectations regarding our auction rate securities; our expectations regarding acquisitions, investments, strategic alliances and joint ventures; our expectations regarding net revenue, cost of goods sold as a percentage of revenue and operating expenses for the first quarter ending May 3, 2014 compared with the fourth quarter ending February 1, 2014; our expectations regarding the growth of solid state drive revenue; our expectations regarding the impact of legal proceedings and claims; our ability to meet our capital needs for at least the next 12 months; our ability to attract and retain highly skilled personnel; our expectations regarding future growth opportunities; our plan regarding forward exchange contracts and the effect of foreign exchange rates; our expectations regarding unrecognized tax benefits; the effect of recent accounting pronouncements and changes in taxation rules; our expectation regarding the effectiveness of our hedges of foreign currency exposures; our expectations that quarterly operating results will fluctuate from quarter to quarter; our expectations regarding the current economic environment; our expectations regarding arrangements with suppliers; our expectations regarding our ability to develop and introduce new products and achieve market acceptance of our products; our expectations regarding pricing; our expectations regarding demand for our products and the impact of seasonality on demand; our expectations regarding defects; our expectations regarding the implementation and improvement of operational and financial systems, as well as the implementation of additional procedures and other internal management systems; our expectations regarding gross margin and the events that may cause gross margin to fluctuate; our expectations to transition our semiconductor products to increasingly smaller line width geometries; our expectations regarding the portion of our operations and sales outside of the United States; our expectations regarding the adequacy of our internal control over financial reporting; our expectations regarding future impairment review of our goodwill and intangible assets; and the anticipated features and benefits of our technology solutions. 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, our dependence upon the hard disk drive and mobile and wireless markets, which are highly cyclical and intensely competitive; our ability and the ability of our customers to successfully compete in the markets in which we serve; our dependence on a small number of customers; the outcome of pending or future litigation and legal proceedings; the impact of international conflict and continued economic volatility in either domestic or foreign markets; 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 ability and our customers' ability to develop new and enhanced products and the adoption of those products in the market; our success in integrating businesses we acquire and the impact such acquisitions may have on our operating results; our ability to estimate customer demand and future sales accurately; the success of our strategic relationships; 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; and the impact of lengthy and expensive product sales cycles. 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 fabless semiconductor provider of high-performance application-specific standard products. Our core strength of expertise is the development of complex Systems-on-a-Chip devices, leveraging our extensive technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing, and embedded and standalone integrated circuits. The majority of our product portfolio leverages the ARM technology portfolio. We also develop platforms that we define as integrated hardware along with software that incorporates digital computing technologies designed and configured to provide an optimized computing solution. Our broad product portfolio includes devices for data storage, enterprise-class Ethernet data switching, Ethernet physical-layer transceivers, mobile handsets, connectivity and other consumer electronics. 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. As a fabless integrated circuit company, 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.

---

## **Table of Contents**

A significant number of our products are being incorporated into consumer electronics products, including gaming devices and personal computers, which are subject to significant seasonality and fluctuations in demand. Holiday and back to school buying trends may at times negatively impact our results in the first and fourth quarter and positively impact our results in the second and third quarter of our fiscal years. In addition, consumer electronics sales are heavily dependent on new product launch timelines and product refreshes. For example, our sales of wireless connectivity products may increase significantly during a period when one of our consumers launches a new gaming console, and these sales may taper significantly after the initial launch period.

A relatively large portion of 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.

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, the fiscal year ended January 30, 2010 as fiscal 2010, the fiscal year ended January 29, 2011 as fiscal 2011, the fiscal year ended January 28, 2012 as fiscal 2012, the fiscal year ended February 2, 2013 as fiscal 2013, the fiscal year ending February 1, 2014 as fiscal 2014 and the fiscal year ending January 31, 2015 as fiscal 2015.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ( 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 February 1, 2014.

### **Results of Operations**

Net revenue for the three months ended May 3, 2014 was higher by approximately 30% compared to the three months ended May 4, 2013, led by year over year growth in the mobile and wireless end markets, together with stable growth in the storage market. On a sequential basis net revenue grew approximately 3% during the first quarter of fiscal 2015 compared to the fourth quarter of fiscal 2014, despite the first quarter normally being a seasonally down quarter, as we saw strong growth from sales of products in our mobile market from multiple Tier-1 customers who have launched their 4G LTE smart phones in China based on our solutions. We are seeing many of our customers introducing new devices using our innovative solutions, which we believe will drive success across all of our end markets. Our future growth is expected to be driven by areas such as mobile handsets, tablets, connectivity, smart home devices and solid state drive ( SSD ) controllers.

In the mobile market, we continued to make steady progress with our LTE solutions, where we passed qualifications in China in fiscal 2014. We continue to focus on the LTE market in China and we are seeing more OEM partners start new 4G LTE smart phone, tablet and mobile broadband device projects with our chipsets. We are also expanding into multiple geographies. In North America, we became fully certified for voice and data at AT&T in fiscal 2014. Most recently, we achieved another important milestone with the completion of LTE certification at Verizon. We are on track to powering more multimode LTE devices from leading OEMs for deployment around the world later this year. However, we expect increased competition in LTE later this year, as multiple competitors will come to production with their devices. In addition to competing for design wins and unit sales, this increased competition could drive pricing lower. Our 3G unified platform is still in production at multiple top tier OEMs. In addition to our dual-core devices, our quad-core platform is also in production with leading OEM customers who have introduced multiple quad-core smartphone models targeting the mass-market segments for both WCDMA and TD-SCDMA.

In the wireless connectivity market, we experienced growth in the gaming market where our wireless connectivity solutions are being used in new game consoles that were launched for the past holiday season. We expect wireless connectivity and other advanced features in these new game consoles to help drive growth for us this year in this industry. In the smart phone market, we continue to have on-going 100% attach rates on our new mobile platforms for our connectivity solutions with our 3G and 4G mobile platforms. We are seeing new opportunities for our connectivity solutions across multiple market segments. We are also seeing increased

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

momentum for both our 1x1 and our 2x2 combo solutions in mobile computing, dongles, set-top boxes and home automation. Our WiFi and Zigbee devices are gaining strong adoption in new IoT-type devices, home automation and smart lighting applications, and we expect volume to ramp up later this year. Our connectivity products have superior RF performance which helps accelerate customer on-boarding and reduce their time-to-market.

---

**Table of Contents**

In the storage market, we continue to execute well as the overall drive industry seems to have stabilized. Our revenue has continued to grow within the SSD market and our strategy of partnering with top tier OEMs has resulted in excellent traction for our advanced SSD solutions. Our PCIe SSD solutions are in mass production and we believe we have a lead in the market. There were also several new product announcements made by multiple customers for our client and enterprise SATA and SAS products. Within the hard disk drive ( HDD ) market, we continue to experience strong demand for our 500 gigabyte per platter products. In addition, we have continued to see increased demand in enterprise drives at a top North America based HDD customer. We are also leveraging our technology leadership in HDD and SSD to help our customer migrate to hybrid storage devices by developing a single-chip solution that we believe will drive lower price points and allow the market to grow. We believe this will allow us to further increase our share and solidify our leadership position in the market over the next few years.

In the networking market, we experienced softer than expected demand in the first quarter of fiscal 2015 from some of our enterprise networking customers due to a weaker market overall. Since we announced our first 28nm network processor and traffic management solutions with our Xelerated AX and HX family of products targeting the infrastructure market, we have engaged with Tier-1 customers on these new high-performance products for their next generation networking equipment. We continue to gain momentum in closing design-wins and driving new opportunities with our latest family of network processing solutions.

Our cost of goods sold as a percentage of net revenue for the three months ended May 3, 2014 was higher compared to both the three months ended February 1, 2014 and May 4, 2013. As we expand our presence and grow revenue in the mobile and wireless end markets, we expect our gross margin to face downward pressure, as these end markets generally have lower average gross margins than the rest of our business. However, we expect this growth will result in improvement to total gross margin dollars and operating profit. In addition, we are focused on efforts to improve both aspects of our gross profit, including through cost improvement and pricing.

Our financial position is strong and we continue to generate significant positive cash flows. Our cash, cash equivalents and short-term investments were \$2.1 billion at May 3, 2014 and we generated cash flow from operations of \$235.1 million through the first quarter of fiscal 2015. We paid a cash dividend of \$0.06 per share for a total of \$30.2 million during the first quarter of fiscal 2015 and we recently announced a dividend of \$0.06 per share to be paid during the second quarter of fiscal 2015.

We are currently involved in a patent litigation action with Carnegie Mellon University ( CMU ) (See Risk Factors under Part II, Item 1A of this Quarterly Report on Form 10-Q and Note 10 Commitments and Contingencies in the Notes to Unaudited Condensed Consolidated Financial Statements for a further discussion of the risks associated with this matter and other patent litigation matters). A jury has awarded past damages of \$1.17 billion, and the Court calculated damages, including enhancement, to total approximately \$1.54 billion. The Court also held that CMU is entitled to post judgment interest and an on-going royalty. Based on the royalty rate assessed by the District Court, such additional royalties through May 3, 2014 would be approximately \$250 million. On May 7, 2014, the District Court entered final judgment and on May 14, 2014, we filed a notice of appeal and posted a bond to stay execution of judgment pending the appeal. We strongly believe that we do not infringe on the methods described in the CMU patents and that our products use our own internally developed patented read channel technology.

**Table of Contents**

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

	<b>Three Months Ended</b>	
	<b>May 3, 2014</b>	<b>May 4, 2013</b>
Net revenue	100.0%	100.0%
Operating costs and expenses:		
Cost of goods sold	51.6	45.7
Research and development	30.8	38.0
Selling and marketing	4.0	5.4
General and administrative	3.2	3.6
Amortization and write-off of acquired intangible assets	0.7	1.5
 Total operating costs and expenses	 90.3	 94.2
 Operating income	 9.7	 5.8
Interest and other income, net	0.2	0.4
 Income before income taxes	 9.9	 6.2
Benefit for income taxes	(0.5)	(1.0)
 Net income	 10.4%	 7.2%

**Three months ended May 3, 2014 and May 4, 2013***Net Revenue*

	<b>Three Months Ended</b>		
	<b>May 3, 2014</b>	<b>May 4, 2013</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Net revenue	\$ 957,830	\$ 734,369	30.4%

Net revenue for the three months ended May 3, 2014 increased by \$223.5 million compared to the three months ended May 4, 2013. The increase in net revenue during the three months ended May 3, 2014 was led by sales of our mobile and wireless products where we saw strong growth from multiple Tier-1 customers who have launched their 4G LTE smart phones in China based on our solutions. Sales of our 3G products in the three months ended May 3, 2014 were also higher compared to the three months ended May 4, 2013. In our storage market, we saw higher HDD revenue, which was mostly driven by continued growth for our 500 gigabyte per platter products and increased demand for enterprise drives at a top North America based HDD customer. In addition, revenue for SSD controllers increased significantly compared to the prior year.

We currently expect overall net revenue for the three months ending August 2, 2014 to be in the range of \$940 million to \$980 million. At the midpoint of this range, we expect revenue from all of our end markets to be relatively flat compared the three months ended May 3, 2014.

Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. We had two end customers who each represented greater than 10% of our total net revenue for the three months ended May 3, 2014 and May 4, 2013, respectively. Net revenue from one of these two customers for the three months ended May 3, 2014 and May 4, 2013 was 19% and 28% of total net revenue, respectively. Net revenue from the other customer for the three months ended May 3, 2014 and May 4, 2013 was 11% of total net revenue for each fiscal year. We also had one distributor who represented 10% of our net revenue for the three months ended May 3, 2014. No distributors accounted for more than 10% of our net revenue for the three months ended May 4, 2013. We expect to continue to experience similar customer concentration in future periods.

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

Most of our sales are expected to continue to be made to customers located outside of the United States, primarily in Asia. Sales to customers located in Asia represented 95% of our net revenue for the three months ended May 3, 2014 compared to 93% of our net revenue for the three months ended May 4, 2013. Because many manufacturers and manufacturing subcontractors of our customers are located in Asia, we expect that most of our net revenue will continue to be represented by sales to our customers in that region.

**Table of Contents***Cost of Goods Sold*

	<b>Three Months Ended</b>		
	<b>May 3, 2014</b>	<b>May 4, 2013</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Cost of goods sold	\$ 493,860	\$ 335,438	47.2%
% of net revenue	51.6%	45.7%	

Cost of goods sold as a percentage of net revenue was higher for the three months ended May 3, 2014 compared to the three months ended May 4, 2013 due to a shift in the mix of our revenue towards our mobile and wireless products which have a higher average cost of goods sold as a percentage of revenue. In addition, we had higher inventory write-downs and increased royalty expense. Our cost of goods sold as a percentage of net 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 foundry; assembly and test subcontractors; product warranty costs; changes in commodity prices such as gold; and the margin profiles of our new product introductions.

We currently expect cost of goods sold as a percentage of net revenue for the three months ending August 2, 2014 to be slightly higher compared to the three months ended May 3, 2014.

*Share-Based Compensation Expense*

	<b>Three Months Ended</b>	
	<b>May 3, 2014</b>	<b>May 4, 2013</b>
	<b>(in thousands)</b>	
Cost of goods sold	\$ 2,299	\$ 1,867
Research and development	20,368	23,279
Selling and marketing	2,928	3,392
General and administrative	4,374	4,975
	<b>\$ 29,969</b>	<b>\$ 33,513</b>

Share-based compensation expense decreased by \$3.5 million for the three months ended May 3, 2014 compared to the three months ended May 4, 2013. The decrease was primarily due to the reversal of previously recognized expense associated with unvested equity awards that were cancelled as a result of the resignation in February 2014 of our Chief Technology Officer, combined with lower expense related to the employee stock purchase plan.

*Research and Development*

	<b>Three Months Ended</b>		
	<b>May 3, 2014</b>	<b>May 4, 2013</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Research and development	\$ 295,363	\$ 279,052	5.8%
% of net revenue	30.8%	30.0%	

Research and development expense increased by \$16.3 million for the three months ended May 3, 2014 compared to the three months ended May 4, 2013. This increase was primarily attributable to \$22.7 million of higher personnel-related costs associated with new employees hired during the quarter to support new designs and an increase in average employee compensation. In addition, there was \$4.7 million of restructuring and other exit-related costs included in research and development expenses, which is further described in the restructuring section of Management's Discussion and Analysis of Financial Condition and Results of Operations. These increases were offset by \$14.9 million of higher reimbursements for non-recurring engineering services from our customers.

*Selling and Marketing*

	<b>Three Months Ended</b>		
	<b>May 3, 2014</b>	<b>May 4, 2013</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Selling and marketing	\$ 38,358	\$ 39,989	(4.1)%
% of net revenue	4.0%	5.4%	



**Table of Contents**

Selling and marketing expense decreased by \$1.6 million for the three months ended May 3, 2014 compared to the three months ended May 4, 2013. The decrease was primarily attributable to a \$1.1 million decrease in expenses for marketing communication activities as a result of our efforts to control discretionary spending.

*General and Administrative*

	<b>Three Months Ended</b>		
	<b>May 3, 2014</b>	<b>May 4, 2013</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
General and administrative	\$ 30,573	\$ 26,323	16.1%
% of net revenue	3.2%	3.6%	

General and administrative expense increased by \$4.3 million for the three months ended May 3, 2014 compared to the three months ended May 4, 2013. This increase was due primarily to a \$4.0 million increase in legal expenses for ongoing litigation matters, combined with an increase in average employee compensation.

*Amortization and Write-Off of Acquired Intangible Assets*

	<b>Three Months Ended</b>		
	<b>May 3, 2014</b>	<b>May 4, 2013</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Amortization and write-off of acquired intangible assets	\$ 6,689	\$ 10,686	(37.4)%
% of net revenue	0.7%	1.5%	

Amortization and write-off of acquired intangible assets decreased by \$4.0 million for the three months ended May 3, 2014 compared to the three months ended May 4, 2013. The decrease was due to a reduction in amortization expense as certain intangible assets have become fully amortized. The decrease in amortization expense was partially offset by a charge to write off \$3.4 million of in-process research and development in the three months ended May 3, 2014, upon our decision to discontinue the related project.

*Restructuring*

	<b>Three Months Ended</b>	
	<b>May 3, 2014</b>	<b>May 4, 2013</b>
	<b>(in thousands)</b>	
Research and development	\$ 4,682	\$
Selling and marketing	48	
General and administrative	358	228
Write-off of acquired intangible assets	3,386	
	<b>\$ 8,474</b>	<b>\$ 228</b>

We recorded a total \$8.5 million restructuring charge in the three months ended May 3, 2014. The charge included \$4.6 million for severance costs and \$0.5 million for other exit-related costs primarily associated with previous facility closures (See Note 8 Restructuring in the Notes to Unaudited Condensed Consolidated Financial Statements). In addition, the charge included \$3.4 million to write off an acquired intangible asset.

*Interest and Other Income, Net*

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

	Three Months Ended		% Change
	May 3, 2014	May 4, 2013	
Interest and other income, net	\$ 1,925	\$ 3,160	(39.1)%
% of net revenue	0.2%	0.4%	

Interest and other income, net, decreased for the three months ended May 3, 2014 compared to the three months ended May 4, 2013, primarily due to the recognition of foreign currency losses from the revaluation of our foreign currency denominated tax liabilities as the U.S. dollar weakened during the three months ended May 3, 2014.

**Table of Contents***Benefit for Income Taxes*

	Three Months Ended		%
	May 3, 2014	May 4, 2013	
	(in thousands, except percentage)		
Benefit for income taxes	\$ (4,567)	\$ (7,168)	(36.3)%
% of net revenue	(0.5)%	(1.0)%	

The income tax benefit for the three months ended May 3, 2014 included the current income tax liability of \$5.7 million, which was offset by tax benefits of \$2.5 million from a net reduction in unrecognized tax benefits and \$7.8 million from an increase in the net deferred tax assets because of the continued discussion with the Singapore tax authorities that resulted in an agreement for a major portion of the pre-tax income to be taxed at a new Development and Expansion Incentive ( DEI ). The net reduction in unrecognized tax benefits arose from the release of \$4.9 million due to expiration of the statute of limitations, which was reduced by an increase in current unrecognized tax benefit estimates of \$1.1 million and a \$1.3 million tax expense related to the fiscal year 2014 tax return of a non-U.S. jurisdiction.

The income tax benefit for the three months ended May 4, 2013 included the current income tax liability of \$1.8 million and \$0.7 million in settlements of audits in non-U.S. jurisdictions, which was more than offset by a net reduction in unrecognized tax benefits of \$9.7 million for the three months ended May 4, 2013. The net reduction in unrecognized tax benefits primarily arose from the expiration of statute of limitations and from the settlement of two audits in non-U.S. jurisdictions, less increases in current unrecognized tax benefit estimates.

It is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to foreign currencies within the next 12 months. Excluding these factors, uncertain tax positions may decrease by as much as \$18 million from the lapse of the statutes of limitation in various jurisdictions during the next 12 months.

We operate under tax incentives in certain countries, which may be extended if certain additional requirements are satisfied. The tax incentives are conditional upon meeting certain employment and investment thresholds. The impact of these tax incentives decreased foreign taxes by \$3.3 million for the three months ended May 3, 2014 and \$2.1 million for the three months ended May 4, 2013. The benefit of the tax incentives on net income per share was less than \$0.01 per share for the three months ended May 3, 2014 and May 4, 2013. Our continued discussions with the Singapore Economic Development Board ( EDB ) regarding incentives after June 2014 have resulted in an agreement for a major portion of a new DEI. We continue to discuss the remaining portion of the incentives with the EDB in order to reach an agreement by June 30, 2014.

**Liquidity and Capital Resources**

Our principal source of liquidity as of May 3, 2014 consisted of approximately \$2.1 billion of cash, cash equivalents and short-term investments, of which approximately \$900 million is held by foreign subsidiaries (outside Bermuda). Approximately \$500 million of this amount held by foreign subsidiaries is related to undistributed earnings, which have been indefinitely reinvested outside of Bermuda. These funds are primarily held in Israel, the United States and Switzerland. We have plans to use such amounts to fund various activities outside of Bermuda including working capital requirements, capital expenditures for expansion, funding of future acquisitions, or other financing activities. If such funds were needed by the parent company in Bermuda or if the amounts were otherwise no longer considered indefinitely reinvested, we would incur a tax expense of approximately \$150 million. We believe that our existing cash, cash equivalents and short-term investments, together with cash generated from operations, exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to cover our working capital needs, capital expenditures, investment requirements, any declared dividends and commitments for at least the next 12 months. 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 and increases in operating expenses, which are all subject to uncertainty. In addition, we are named as defendants to several litigation actions and an unfavorable outcome in any current litigation could have a material adverse effect on our liquidity, cash flows and results of operations. Specifically, with respect to the CMU litigation, a jury has awarded past damages of \$1.17 billion, and CMU has sought pre-judgment interest, post-judgment interest, attorneys' fees, and an injunction and/or ongoing royalties. Based on a series of post-trial rulings, the District Court calculated the damages including enhancement to total approximately \$1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. Based on the royalty rate assessed by the District Court, such additional royalties through May 3, 2014 would be approximately \$250 million. On May 7, 2014, the District Court entered final judgment and on May 14, 2014 we filed a notice of appeal and posted a bond to stay execution of judgment pending the appeal. We strongly believe that we do not infringe on the methods described in the CMU patents and that our products use our own internally developed patented read channel technology. See the section entitled Off-Balance Sheet Arrangements below for a discussion of the effects on liquidity from the CMU litigation.

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

To the extent that our existing cash, cash equivalents and short-term investments 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 also enter into additional acquisitions of businesses, purchase assets or enter into 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

---

**Table of Contents**

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.

***Net Cash Provided by Operating Activities***

Net cash provided by operating activities was \$235.1 million for the three months ended May 3, 2014. The cash inflows from operations for the three months ended May 3, 2014 were due to \$165.0 million of net income adjusted for non-cash items and a positive effect from changes in working capital of \$70.1 million. The cash inflow from working capital for the three months ended May 3, 2014 was primarily driven by an increase in accounts payable as production activity was higher in the first quarter of fiscal 2015 and deferred income due to higher inventory levels at distributors. In addition, accrued employee compensation increased primarily due to higher contributions withheld for the employee stock purchase plan. This positive impact on working capital was partially offset by an increase in accounts receivable from higher revenue levels and proportionally higher shipments in the second half of the quarter.

Net cash provided by operating activities was \$83.9 million for the three months ended May 4, 2013. The cash inflows from operations for the three months ended May 4, 2013 were primarily due to \$124.9 million of net income adjusted for non-cash items, offset by working capital changes of \$41.0 million.

***Net Cash (Used in) Provided by Investing Activities***

Net cash used in investing activities was \$24.3 million for the three months ended May 3, 2014 compared to net cash provided by investing activities of \$0.4 million for the three months ended May 4, 2013. For the three months ended May 3, 2014, net cash used in investing activities was primarily from the payment of \$16.1 million for the purchase of property and equipment and \$8.1 million for the purchase of technology licenses.

Net cash provided by investing activities for the three months ended May 4, 2013 was generated from the sales and maturities of available-for-sale securities of \$335.8 million less purchases of available-for-sale securities of \$306.8 million. In addition, we paid \$20.1 million for the purchase of property and equipment and \$5.9 million for the purchase of technology licenses.

***Net Cash Used in Financing Activities***

Net cash used in financing activities was \$35.3 million for the three months ended May 3, 2014 compared to net cash used in financing activities of \$241.8 million for the three months ended May 4, 2013. For the three months ended May 3, 2014, net cash used in financing activities was primarily attributable to payments of our quarterly dividends of \$30.2 million. In addition, we paid \$24.3 million for the minimum tax withholding on behalf of employees for net share settlements, which was partially offset by \$19.1 million proceeds from the issuance of our common shares under our share-based plans

Net cash used in financing activities for the three months ended May 4, 2013 was primarily attributable to repurchases under our share repurchase program. Adjusted for repurchases made in the final three days of the quarter that were accrued but not yet paid due to the standard three-days settlement period, we paid \$216.7 million to repurchase shares. The cash outflow was partially offset by net proceeds of \$10.4 million from the issuance of our common shares under our share-based plans less the minimum tax withholding paid on behalf of employees for net share settlements.

***Off-Balance Sheet Arrangements***

On May 14, 2014, we filed a Notice of Appeal to appeal the final judgment issued by the District Court in the CMU litigation. In order to stay the execution of the final judgment pending its appeal, we filed a supersedeas bond for \$1.54 billion with the District Court. The bond was issued by a consortium of sureties authorized by the U.S. Treasury. If the judgment is affirmed after the completion of all appellate proceedings, and we do not thereafter fully satisfy the judgment within thirty days, the sureties are obligated under the bond to make payment to CMU. In support of the bond, we entered into separate indemnity agreements with each of the sureties to indemnify the sureties from all costs and payments made under the bond. The indemnity agreements did not require collateral to be posted at the time of the issuance of the bond. Therefore no cash or other Company assets are considered restricted as of the date of this filing. However, the indemnity agreements provide that each of the sureties have the right to demand to be placed in funds or call for collateral under pre-defined events. The indemnity agreements will remain outstanding for as long as the underlying bond remains outstanding.

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

The Court has required us to report ongoing royalties under the current judgment. Based on the royalty rate assessed by the District Court, such additional royalties through May 3, 2014 would be approximately \$250 million. It is unknown at this time whether we will be required to secure all or a portion of the ongoing royalties. If we are required to secure all or some portion of the ongoing royalties, we may be required to post cash or other Company assets as collateral.

## **Table of Contents**

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities of financial partnerships, such as entities often referred to as structured finance or special purpose entities ( SPEs ), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of May 3, 2014, we were not involved in any unconsolidated SPE transactions.

### **Contractual Obligations**

We presented our contractual obligations at February 1, 2014 in our Annual Report on Form 10-K for the fiscal year then ended. There have been no material changes outside the ordinary course of business in those obligations during the three months ended May 3, 2014, other than as noted under the section entitled "Off-Balance Sheet Arrangements" above.

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

*Interest Rate Risk.* Our interest rate risk relates primarily to our fixed income short-term investment portfolio as we did not have any outstanding debt as of May 3, 2014. We maintain an investment policy that requires minimum credit ratings, diversification of credit risk and limits the long-term interest rate risk by requiring maturities of generally less than five years. We invest our excess cash primarily in highly liquid debt instruments of the U.S. government and its agencies, time deposits, money market mutual funds, asset backed securities and corporate debt securities. These investments are classified as available-for-sale and, consequently, are recorded on our balance sheets at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income in shareholders' equity. Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

To provide an assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact that an adverse change in interest rates would have on the value of the investment portfolio. Based on investment positions as of May 3, 2014, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$13.7 million decline in the fair market value of the portfolio. Due to our positive cash flow from operations, the relatively short-term nature of our investment portfolio and our ability to hold investments to maturity, such change in fair market value would likely not have resulted in any cash flow impact.

As of May 3, 2014, our investment portfolio included \$16.2 million in par value of auction rate securities. Beginning in February 2008, liquidity issues in the global credit markets resulted in a failure of auction rate securities, as the amount of securities submitted for sale in those auctions exceeded the amount of bids. Since this time, many of the issuers have refinanced their debt and paid down the auction rate securities which have resulted in a smaller pool of outstanding securities. Although these securities have continued to pay interest and show an improvement in the underlying collateralization, there is currently limited trading volume. To estimate the fair value of the auction rate securities, we use a discounted cash flow model based on estimated timing and amount of future interest and principal payments. In developing the cash flow model, we consider the credit quality and liquidity of the underlying securities and related issuer, the collateralization of underlying security investments and other considerations. As of May 3, 2014, the fair value of auction rate securities in our investment portfolio was \$2.7 million less than par value and the fair value was recorded in long-term investments.

Based on our balance of approximately \$2.1 billion in cash, cash equivalents and short-term investments, and the fact that we continue to generate positive cash flow on a quarterly basis, we do not anticipate having to sell these securities below par value and do not have the intent to sell these auction rate securities until recovery. Since we consider the impairment to be temporary, we recorded the unrealized loss to accumulated other comprehensive income, a component of shareholders' equity.

*Investment Risk.* We invest in equity instruments of privately held companies for strategic purposes. We account for these investments under the cost method when we do not have the ability to exercise significant influence or control over the operations of these companies and under the equity method when we have the ability to exercise significant influence, but do not have control. Carrying value of these equity investments was \$15.0 million at May 3, 2014, and was included in other non-current assets in our balance sheets. 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.* Substantially all of our sales and the majority of our expenses are denominated in U.S. dollars. Since we operate in many countries, we pay certain payroll and other operating expenses in local currencies and these expenses may be higher or lower in U.S. dollar terms. Furthermore, our operations in Israel and China represent a large portion of our total foreign currency exposure. We may also hold certain assets and liabilities, including potential tax liabilities in local currency on our balance sheet. These tax liabilities would be settled in local currency. Therefore, foreign exchange gains and losses from remeasuring the tax liabilities are recorded to interest and other income, net. The related effects of foreign exchange fluctuations on local currency expenses are recorded to operating expenses. Significant fluctuations in exchange rates in countries where we incur expenses or record assets or liabilities in local currency could affect our business and operating

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

results in the future. 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.



## **Table of Contents**

We engage in hedging transactions to help mitigate some of the volatility to forecasted cash flows due to changes in foreign exchange rates, and in particular hedge a portion of the forecasted Israeli shekel expenses and forecasted Chinese yuan expense. We enter into certain short-term forward exchange contracts, typically less than 12 months in duration, to hedge exposures for expenses and purchases denominated in foreign currencies when the currency exposure is significant and there is a high certainty of the underlying cash flow. We do not enter into derivative financial instruments for trading or speculative purposes. We may choose not to hedge certain foreign exchange exposures due to immateriality, offsetting exposures, prohibitive economic cost of hedging a particular currency, and limited availability of appropriate hedging instruments. To the extent our foreign currency hedges are effective, the results of the hedge activities offset the underlying expense within the operating expense. Financial instruments not designated as hedges or hedges deemed ineffective are recorded in interest and other income, net. We do not hedge our tax liabilities denominated in local currency on our balance sheet as the timing of these tax liabilities becoming cash flows is not deemed to be certain.

To provide an assessment of the foreign currency exchange risk associated with our foreign currency exposures within operating expense, we performed a sensitivity analysis to determine the impact that an adverse change in exchange rates would have on our financial statements. If the U.S. dollar weakened by 10%, our operating expense could increase by 4.3%. We expect our hedges of foreign currency exposures to be highly effective and offset a significant portion of the short-term impact of changes in exchange rates.

### **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 Exchange Act). Our 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 Securities and Exchange Commission 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 3, 2014, our disclosure controls and procedures were effective to provide reasonable assurance.

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

There were no changes in our internal control over financial reporting during the three months ended May 3, 2014 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 under the caption "Contingencies" as set forth in "Note 10 Commitments and 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 Securities and Exchange Commission ( "SEC" ), including our Annual Report on Form 10-K for the year ended February 1, 2014 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 from quarter to quarter, which may cause the price of our common shares to decline.***

Our quarterly results of operations have fluctuated in the past and could do so in the future. Because our results of operations 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 results of operations may be due to a number of factors, including, but not limited to, those listed below and those identified throughout this "Risk Factors" section:

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

the highly competitive nature of the end markets we serve, particularly within the semiconductor industry;

any current and future litigation that could result in substantial costs and a diversion of management's attention and resources that are needed to successfully maintain and grow our business;

our dependence on a few customers for a significant portion of our revenue;

our ability to maintain a competitive cost structure for our manufacturing and assembly and test processes and our reliance on third parties to produce our products;

cancellations, rescheduling or deferrals of significant customer orders or shipments, as well as the ability of our customers to manage inventory;

gain or loss of a design win or key customer;

seasonality in sales of consumer devices in which our products are incorporated;

failure to qualify our products or our suppliers manufacturing lines;

our ability to develop and introduce new and enhanced products in a timely and effective manner, as well as our ability to anticipate and adapt to changes in technology;

failure to protect our intellectual property;

impact of a significant natural disaster, including earthquakes, floods and tsunamis; and

our ability to attract and retain highly skilled managerial, engineering, sales and marketing personnel.

## **Table of Contents**

Due to fluctuations in our quarterly results of operations and other factors, the price at which our common shares will trade is likely to continue to be highly volatile. From January 30, 2011 through May 3, 2014, our common shares have traded as low as \$6.98 and as high as \$20.42 per share. Accordingly, you may not be able to resell your common shares at or above the price you paid. In future periods, our stock price could decline if, amongst other factors, our revenues or operating results are below our estimates or the estimates or expectations of securities analysts and investors. As a result of stock price volatility, we may be subject to securities class action litigation. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully maintain and grow our business.

***We operate in intensely competitive markets, and our failure to compete effectively would harm our results of operations.***

The semiconductor industry and specifically the mobile and wireless communications markets are extremely competitive, and we expect competition to intensify as current competitors expand their product offerings and new competitors enter the market. This has especially intensified as semiconductor companies have begun to offer more integrated platforms. We currently compete with a number of large domestic and international companies in the business of designing integrated circuits and related applications, some of which have greater financial, technical and management resources than us. Our efforts to introduce new products into markets with entrenched competitors will expose us to additional competitive pressures. For example, we expect we will face significant competition in the transition into the LTE market. We expect competition to continue to increase as industry standards continue to evolve and become better known, and others realize the market potential of this trend to platform integration. As competition in the markets in which we operate continues to increase, our revenues and gross margins may decline. For example, competitors with greater financial resources may be able to offer lower prices than us, or they may offer additional products, services or other incentives that we may not be able to match. In addition, many of our competitors operate and maintain their own fabrication facilities and have longer operating histories, greater name recognition, larger customer bases, and greater sales, marketing and distribution resources than we do. Furthermore, our current and potential competitors in the mobile and wireless markets have established or may establish financial and strategic relationships among themselves or with existing or potential customers or other third parties to increase the ability of their products to address the needs of customers. Accordingly, new competitors or alliances among these competitors may acquire significant market share, which would harm our business. While we continue to pursue similar strategic relationships, and currently have significant financial and technical resources, we cannot assure you that we will be able to continue to compete successfully against existing or new competitors, which would harm our results of operations.

In addition, semiconductor providers have recently experienced consolidation. For example, Broadcom Corporation acquired NetLogic Microsystems in February 2011 and Texas Instruments Incorporated acquired National Semiconductor in September 2011. Other pending transactions may further consolidate competition in our industry. Consolidation among our competitors could lead to a changing competitive landscape, capabilities and market share, which could harm our results of operations.

***We are currently involved in a patent litigation action involving Carnegie Mellon University, and, if we do not prevail on appeal of the district court judgment, we could be liable for substantial damages.***

On March 6, 2009, Carnegie Mellon University (CMU) filed a complaint in the U.S. District Court for the Western District of Pennsylvania naming Marvel Semiconductor, Inc. and us as defendants, and alleging patent infringement. CMU has asserted U.S. Patent Nos. 6,201,839 and 6,438,180 (collectively, the CMU patents in suit), which relate to read-channel integrated circuit devices and the hard disk drive (HDD) products incorporating such devices. A jury trial began on November 26, 2012. On December 26, 2012, a jury delivered a verdict that found the CMU patents in suit were literally and willfully infringed and valid, and awarded past damages in the amount of \$1.17 billion. CMU sought in its post-trial motions enhanced damages up to three times the jury verdict, pre-judgment interest up to \$322 million, post-judgment interest, supplemental damages, attorneys' fees, and an injunction and/or ongoing royalties. Post-trial motions were heard on May 1 and 2, 2013. On June 26, 2013, the District Court denied CMU's post-trial motion for attorney fees without prejudice. On August 23, 2013, the District Court denied our motion for mistrial. On September 23, 2013, the District Court denied our motion for judgment as a matter of law or a new trial on non-infringement, invalidity and other non-damages issues as well as our motion for reduced damages. On the same day, the District Court granted-in-part CMU's motion for a finding of willful infringement and enhanced damages, reserving its further rulings on any enhancement of the verdict for a separate opinion. On January 14, 2014, the District Court denied our post-trial motion on laches. On March 31, 2014, the District Court rejected CMU's motion for an injunction. The District Court also denied CMU's request for pre-judgment interest, and substantially scaled back CMU's request for enhanced damages. Based on these decisions, the Court calculated the damages including enhancement to total approximately \$1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. On May 7, 2014, the District Court entered final judgment, from which we filed a notice of appeal on May 14, 2014. We believe that there are strong grounds for appeal and we intend to vigorously challenge the District Court's judgment via an appeal to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., but there is no guarantee that we will be successful on appeal. Please see Note 10 Commitments and Contingencies of our Notes to Unaudited Condensed Consolidated Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q for a more detailed description of a number of litigation matters we are currently engaged in. If we are required to pay most or all of the damages calculated by the District Court after all appeals have been exhausted, this could have a material adverse effect on our business, financial condition, results of operations and cash flows.



---

## **Table of Contents**

On May 14, 2014, we filed a Notice of Appeal to appeal the final judgment issued by the District Court in the CMU litigation. In order to stay the execution of the final judgment pending its appeal, we filed a supersedeas bond for \$1.54 billion with the District Court. The bond was issued by a consortium of sureties authorized by the U.S. Treasury. If the judgment is affirmed after the completion of all appellate proceedings, and we do not thereafter fully satisfy the judgment within thirty days, the sureties are obligated under the bond to make payment to CMU. In support of the bond, we entered into separate indemnity agreements with each of the sureties to indemnify the sureties from all costs and payments made under the bond. The indemnity agreements did not require collateral to be posted at the time of the issuance of the bond. Therefore no cash or other Company assets are considered restricted as of the date of this filing. However, the indemnity agreements provide that each of the sureties have the right to demand to be placed in funds or call for collateral under pre-defined events. The indemnity agreements will remain outstanding for as long as the underlying bond remains outstanding.

The Court has required us to report ongoing royalties under the current judgment. Based on the royalty rate assessed by the District Court, such additional royalties through May 3, 2014 would be approximately \$250 million. It is unknown at this time whether we will be required to secure all or a portion of the ongoing royalties. If we are required to secure all or some portion of the ongoing royalties, we may be required to post cash or other Company assets as collateral.

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

The HDD industry is intensely competitive, and the technology changes rapidly. This industry has historically been 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 largest customers are participants in this industry.

HDD manufacturers tend to order more components than they may need during growth periods, and sharply reduce orders for components during periods of contraction. Rapid technological changes in the HDD industry often result in shifts in market share among the industry's participants. If the HDD manufacturers using our products do not retain or increase their market share, our sales may decrease.

In addition, the HDD industry has experienced consolidation over the past several years. For example, during fiscal 2010, Toshiba acquired the HDD operations of Fujitsu. In December 2011, Seagate completed the acquisition of Samsung's HDD unit. In March 2012, Western Digital completed the acquisition of Hitachi's HDD unit. Consolidation among our customers could lead to changing demand for our products, replacement of our products by the merged entity with those of our competitors and cancellation of orders, each of which could harm our results of operations. On the other hand, this could lead to increased opportunities for our products within the combined company if we can leverage our technology and customer relationships.

Furthermore, future changes in the nature of information storage products could reduce demand for traditional HDDs. For example, products using alternative technologies, such as solid-state drives (SSDs) and other storage technologies could become a source of competition to manufacturers of HDDs. Although we offer SSD controllers, leveraging our technology in hard drives, we cannot ensure we will be able to maintain significant market share if demand for traditional HDDs decreases.

***We may become involved with costly and lengthy litigation involving our patents and other intellectual property, which could subject us to liability, require us to indemnify our customers, require us to obtain or renew licenses, 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 semiconductor industry, where a number of companies and other entities aggressively bring numerous infringement claims to assert their patent portfolios. The amount of damages alleged in intellectual property infringement claims can often be very significant. For example, in our litigation with CMU, the District Court has calculated damages payable by Marvell including enhancement to total approximately \$1.54 billion, and held that CMU is entitled to post judgment interest and an ongoing royalty. Based on the royalty rate assessed by the District Court, such additional royalties through May 3, 2014 would be approximately \$250 million. If we receive a significant adverse judgment in any litigation matter that is ultimately upheld after all appeals, our results of operations, financial position and cash flows will be adversely affected.

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. In addition to standards-based infringement claims, infringement claims have also been directed against us and our subsidiaries' proprietary technologies, particularly those related to storage technology, microprocessors and other circuit components. We have also had certain patent licenses with third parties that have not been renewed, 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:

## Table of Contents

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

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

We may also be required to indemnify some customers under our contracts if a third party alleges, or a court finds, that our products have infringed upon the proprietary rights of other parties. From time to time, 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. If we are required to make a significant payment under any of our indemnification obligations, our results of operations may be harmed.

***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, or if any of these key customers experience a significant decline in market share, our revenues may decrease substantially.***

We receive a significant amount of our revenues from a limited number of customers. Net revenue from our two largest customers represented 30% and 39% of our net revenue for the three months ended May 3, 2014 and May 4, 2013, respectively. Sales to our largest customers have fluctuated significantly from period to period and year to year primarily due to the timing and number of design wins with each customer, natural disasters that may divert a customer's operations, as well as the continued diversification of our customer base as we expand into new markets, and will likely continue to fluctuate in the future. The loss of any of our large customers or a significant reduction in sales we make to 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:

a significant portion of our sales are made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with relatively short notice to us;

our customers may purchase integrated circuits from our competitors;

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

our customers may develop their own solutions; or

our customers may be subject to severe business disruptions.

***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 ability to grow our business.***



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

We do not have our own manufacturing or assembly facilities and have very limited in-house testing facilities. Therefore, we currently rely on several third-party foundries to produce 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. Our other sources for manufacturing are located in China and Singapore. In addition, substantially all of our third-party assembly and testing facilities are located in Singapore, Taiwan, Malaysia and the Philippines. Because of the geographic concentration of these third-party foundries, as well as our assembly and test subcontractors, we are exposed to the risk that their operations may be disrupted by regional disasters including earthquakes, tsunamis or typhoons, or by political changes. For example, the risk of an earthquake in Taiwan and elsewhere in the Pacific Rim region is significant due

## **Table of Contents**

to the proximity of major earthquake fault lines to the facilities of our foundries and assembly and test subcontractors. Taiwan has experienced significant earthquakes in the past and may be subject to additional earthquakes that could disrupt manufacturing operations. In the event of a significant natural disaster or a quarantine or closure that affects our manufacturers in the Pacific Rim, our revenues, cost of goods sold and results of operations would be negatively impacted. In addition, if we were unable to quickly identify alternate manufacturing facilities, we could experience significant delays in product shipments, which could harm our results of operations.

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

The ability of each foundry to provide us with semiconductor devices is limited by its available capacity and existing obligations. When demand is strong, availability of foundry capacity may be constrained or not available, 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. 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. Moreover, if any of our third party foundry suppliers are unable to secure necessary raw materials from their suppliers, lose benefits under material agreements, experience power outages, lack sufficient capacity to manufacture our products, encounter financial difficulties or suffer any other disruption or reduction in efficiency, we may encounter supply delays or disruptions, which could harm our business or results of operations.

Despite our strategy to move to a dual source, most of our products 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. 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.

We are also subject to risk from fluctuating market prices of certain commodity raw materials, particularly gold, that are incorporated into our end products or used by our suppliers to manufacture our end products. Supplies for such commodities may from time to time become restricted, or general market factors and conditions may affect pricing of such commodities. Over the past few years, the price of gold increased significantly and certain of our supply chain partners assessed surcharges to compensate for the resultant increase in manufacturing costs. As a result, our gross margins have been adversely affected by increases in the price of gold. We are currently restructuring certain manufacturing processes to use copper instead of gold in our products. In transitioning from gold to copper, because the capacity of either wafer producers or assemblers can be limited from time to time, we may be unable to satisfy the demand of our customers, or may have to accept price increases or other compensation arrangements that increase our operating expenses and erode our gross margins. Our results may also be materially affected adversely if we fail to execute successfully or if we experience resistance from our customer base in the transition from gold to copper.

### *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.

## **Table of Contents**

*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 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. In addition, the development of new silicon devices is highly complex, and due to supply chain cross-dependencies and other issues, we may experience delays in completing the development, production and introduction of our new products. 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 that we do not properly anticipate, 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 they serve and to introduce and promote those products successfully in a timely manner. Even if new and enhanced products are introduced to the market, we and our customers may not be able to achieve market acceptance of them.

In addition, our long-standing 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 certain price concessions, which could cause our average selling prices and gross margins to decline.

*Our gross margin and results of operations may be adversely affected in the future by a number of factors, including decreases in average selling prices of products over time and shifts in our product mix.*

The products we develop and sell are primarily used for high volume applications. As a result, the prices of those products have historically decreased rapidly. In addition, more recently introduced products tend to have higher associated costs because of initial overall development and production ramp. Therefore, over time, we may not be able to maintain or improve our gross margins. Our financial results could suffer if we are unable to offset any reductions in our average selling prices by other cost reductions through efficiencies, introduction of higher margin products and other means.

Moreover, because of the wide price differences across the markets we serve, the mix and types of performance capabilities of our products sold may affect the average selling prices of our products and have a substantial impact on our revenue and gross margin. We may enter new markets in which a significant amount of competition exists, and this may require us to sell our products with lower gross margins than our established businesses. In addition, these new markets may have lower standard gross margins than the traditional markets we have served. If we are successful in growing revenue in these markets, our overall gross margin may decline. Fluctuations in the mix and types of our products may also affect the extent to which we are able to recover the fixed costs and investments associated with a particular product, and as a result can harm our financial results.

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 margins. 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 by our competitors and other factors. We expect that we will continue to have to reduce prices in the future.

*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; 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. Due to their inability to predict demand or other reasons, some of our customers may accumulate excess inventories and, as a consequence, defer purchase of 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 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

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

error into our estimates. For example, our ability to accurately forecast customer demand may be impaired by the delays inherent in our lengthy sales cycle. The sales cycle for many of our products is long and requires us to invest significant resources

---

**Table of Contents**

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 prior to completion, which makes it even more difficult to forecast customer demand.

Our products are incorporated into complex devices and systems, which may create supply chain cross-dependencies. For example, in fiscal 2012, many areas of Thailand sustained massive damage from flooding, which disrupted the global supply chain for HDDs. Due to cross dependencies, any supply chain disruptions could negatively impact the demand for our products in the short term. We have a limited ability to predict the timing of a supply chain correction. In addition, the market share of our customers could be adversely impacted on a long-term basis due to any continued supply chain disruption, which could negatively affect our results of operations.

If we overestimate customer demand, our excess or obsolete inventory may increase significantly, which would reduce our gross margin and adversely affect our financial results. The risk of obsolescence and/or excess inventory is heightened for devices designed for consumer electronics due to the rapidly changing market for these types of products. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would miss 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.

***If we fail to appropriately scale our operations in response to changes in demand for our existing products or to the demand for new products requested by our customers, our business and profitability 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. In the future, 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 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 be required to scale down our business through 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. 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 decrease in customer demand. If customer demand does not increase as anticipated, our profitability could be adversely affected due to our higher expense levels.

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 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 systems can be time consuming and expensive to implement, 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 results of operations.

***Our business, financial condition and results of operations may be adversely impacted by global economic conditions, which may cause a decline in the market price of our common shares.***

We operate 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, including as a result of volatile global economic conditions. These factors could cause substantial fluctuations in our net revenue, gross margin, cash flows 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. 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. The semiconductor industry is also subject to periodic increases in demand and supply constraints, which may affect our ability to ship products. Accordingly, our results of operations may vary significantly as a result of the general conditions in the semiconductor industry, which could cause fluctuations in our stock price.



## **Table of Contents**

We cannot predict the timing, strength or duration of any economic slowdown or recovery or the impact of any such events on our vendors, customers or us. If the economy or markets in which we operate deteriorate from current levels, 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.

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

We had approximately \$2.0 billion of goodwill and \$41.9 million of acquired intangible assets, net on our balance sheet as of May 3, 2014. Under generally accepted accounting principles in the United States ( GAAP ), we are required to review our intangible assets including goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We perform an assessment of goodwill for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. We have only one reporting unit, and the fair value of the reporting unit is determined by taking our market capitalization as determined through quoted market prices and as adjusted for a control premium and other relevant factors. If our fair value declines to below our carrying value, we could incur significant goodwill impairment charges, which could negatively impact our financial results.

In addition, from time to time, we have made investments in 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. We evaluate our investment portfolio on a regular basis to determine if impairments have occurred. If the operations of any businesses that we have acquired declines significantly, we could incur significant intangible asset impairment charges. Impairment charges could have a material impact on our results of operations in any period.

*We depend on key personnel 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, sales and marketing personnel. The loss of key employees or the inability to attract qualified personnel, including hardware and software engineers and sales and marketing personnel could delay the development and introduction of and harm our ability to sell our products. We typically do not enter into 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. 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.





## **Table of Contents**

*As a result of our global operations, we face additional 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 95% of our net revenue in the three months ended May 3, 2014, 95% of our net revenue in fiscal 2014 and 90% of our net revenue in fiscal 2013.

We also have substantial operations outside of the United States. These operations are directly influenced by the political and economic conditions of the region in which they are located, and with respect to Israel, possible military hostilities that could affect our operations there. 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, 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;

local laws and practices that favor local companies, including business practices that we are prohibited from engaging in by the Foreign Corrupt Practices Act and other anti-corruption laws and regulations;

difficulties in staffing and managing foreign operations;

natural disasters, including earthquakes, tsunamis and floods;

trade restrictions or higher tariffs;

transportation delays;

difficulties of managing distributors;

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

inadequate local infrastructure; and

exposure to local banking, currency control and other financial-related risks.

As a result of having global operations, the sudden disruption of the supply chain and/or the manufacture of our customers' products caused by events outside of our control could impact our results of operations by impairing our ability to timely and efficiently deliver our products.

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

During fiscal 2012, the earthquake and tsunami that affected Japan disrupted the global supply chain for certain components important to our products and the flooding in Thailand affected the supply chain and manufacturing of the products for a number of our customers.

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 or our third-party manufacturers have significant cost will increase the cost of such operations, which could harm our results of operations. For example, we have large fixed costs in Israel, which will become greater if the U.S. dollar declines in value versus the Israeli shekel. On the other hand, substantially all of our sales have been denominated in U.S. dollars.

***Costs related to defective products could have a material adverse effect on us.***

We have experienced, from time to time, hardware and software defects and bugs associated with the introduction of our highly complex products. We cannot assure you that, despite our testing procedures, errors will not be found in new products or releases after commencement of commercial shipments in the future, which could result in loss of or delay in market acceptance of our products, material

---

## **Table of Contents**

recall and replacement costs, delay in revenue recognition or loss of revenues, writing down the inventory of defective products, the diversion of the attention of our engineering personnel from product development efforts, our having to defend against litigation related to defective products or related property damage or personal injury, and damage to our reputation in the industry that could adversely affect our relationships with our customers. In addition, we may have difficulty identifying the end customers of the defective products in the field. As a result, we could incur substantial costs to implement modifications to correct defects. Any of these problems could materially adversely affect our results of operations.

### ***Tax benefits that we receive may be terminated or reduced in the future, which would harm our results of operations and profitability.***

In prior years, we have entered into agreements in certain foreign jurisdictions that if certain criteria are met, the foreign jurisdiction will provide a more favorable tax rate than their current statutory rate.

We have obtained an undertaking from the Minister of Finance of Bermuda in fiscal 2013 under the Exempt Undertakings Tax Protection Act 1966, as amended, that in the event Bermuda enacts legislation imposing tax computed on profits, income, or capital asset, gain or appreciation, then the imposition of any such taxes will not apply to us until March 31, 2035. We cannot assure that any future elected Government of Bermuda would not amend the Exempt Undertaking Tax Protection Act 1966 such that tax would be imposed in Bermuda.

The Singapore Economic Development Board ( EDB ) initially granted a 10-year Pioneer Status in July 1999 to our subsidiary in Singapore if we met several requirements as to investments, headcount and activities. In October 2004, our subsidiary in Singapore was granted a second incentive known as the Development and Expansion Incentive ( DEI ), which was retroactively effective to July 2004 and is renewable every 5 years. The DEI was to benefit the non-Pioneer income. In June 2006, the EDB agreed to extend the Pioneer status for 15 years to June 2014 and in 2009, the EDB renewed the DEI to June 2014. Our continued discussions with the EDB regarding incentives after June 2014 have resulted in an agreement for a major portion of the pre-tax income to be taxed at a new DEI. We continue to discuss the remaining portion of the incentives with the EDB in order to reach an agreement by the June 30, 2014.

Under the Israeli Encouragement law of approved or benefited enterprise, two branches of Marvell Israel (M.I.S.L.) Ltd. ( MISL ), the GTL branch and the cellular branch (formerly Marvell DSPC), are entitled to approved and benefited tax programs that include reduced tax rates and exemption of certain income. The first program was approved for MISL in fiscal 1996 and the most recent was started in fiscal 2013. The cellular branch has five approved programs and three benefited programs, with the first approved in fiscal 1991 and the most recent benefited enterprise started in fiscal 2011. The benefit period is generally 10 to 15 years and begins in the first year in which our Israeli divisions earn taxable income from the approved or benefited enterprises, provided the maximum period 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 2008 through fiscal 2027.

During fiscal 2007, each of the Swiss Federal Department of Economy and the Vaud Cantonal Tax Administration granted our subsidiary in Switzerland a 10 year tax incentives on revenues from research and design and wafer supply trading activities that will expire in 2016. In fiscal 2011, we met the requirements of the initial five year period and we will receive the ongoing tax incentives provided that we continue to meet the ongoing requirements.

If any of our tax agreements in any of these foreign jurisdictions were terminated, our results of our operations and profitability would be harmed.

### ***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 and technologies, augment our end market coverage, or enhance our technological capabilities. 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 entails 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, new debt or contingent liabilities, 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.



## **Table of Contents**

***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.***

From time to time, we enter into relationships with distributors and manufacturers' representatives to sell our products, and we are unable to predict the extent to which these partners will be successful in marketing and selling our products. Moreover, many of our distributors and manufacturers' representatives also market and sell competing products, and 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 or attract quality distributors or manufacturers' representatives, our sales and results of operations will be harmed.

***Changes in financial accounting standards or practices or existing taxation rules or practices may adversely affect our financial results.***

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, both the U.S. Congress and the G-20 (Group of Twenty Finance Ministers and Central Bank Governors) may consider legislation affecting the taxation of foreign corporations and such legislation if enacted might adversely affect our future tax liabilities and have a material impact on our results of operations. 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 or cause our stock price to decline.

***We rely upon the performance of our information technology systems to process, transmit, store and protect electronic information, and the failure of any critical information technology system may result in serious harm to our reputation, business, results of operations and/or financial condition.***

We are heavily dependent on our technology infrastructure and maintain and rely upon certain critical information systems for the effective operation of our business. These information technology systems include telecommunications, the Internet, our corporate intranet, various computer hardware and software applications, network communications and e-mail. These information technology systems are subject to damage or interruption from a number of potential sources including natural disasters, viruses, destructive or inadequate code, malware, power failures, cyber attacks, and other events. 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. We may incur significant costs in order to implement, maintain and/or update security systems that we feel are necessary to protect our information systems. A material breach in the security of our information systems could include the theft of our intellectual property or trade secrets, negatively impact our operations, or result in the compromise of personal and confidential information of our employees, customers or suppliers. While we believe that our information technology systems are appropriately controlled and that we have processes in place to adequately mitigate these risks, security procedures for information systems cannot be guaranteed to be failsafe. To the extent that any system failure, accident or security breach results in disruptions or interruptions to our operations or the theft, loss or disclosure of, or damage to our data or confidential information, our reputation, business, results of operations and/or financial condition could be materially adversely affected. In addition, a miscalculation of the level of investment needed to ensure our technology solutions are current and up-to-date as technology advances and evolves could result in disruptions in our business should the software, hardware or maintenance of such items become out-of-date or obsolete. Furthermore, when we implement new systems and/or upgrade existing systems, there is a risk that our business may be temporarily disrupted during the period of implementation.

***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 and acquired 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 a significant number of U.S. and foreign patents and have a significant 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, which would adversely impact our business and results of operations.



---

**Table of Contents**

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. Open source software is made available under licenses that 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. 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 if the license is terminated.

***We have been named as a party to several lawsuits and we may be named in additional litigation in the future, all of which could result in an unfavorable outcome and have a material adverse effect on our business, financial condition, results of operations, cash flows, and the trading price for our securities.***

We have been named as a party to several lawsuits and we may be named in additional litigation in the future. Please see Note 10 Commitments and Contingencies of our Notes to Unaudited Condensed Consolidated Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q for a more detailed description of a number of the litigation matters we are currently engaged in. Under certain circumstances, we have contractual and other legal obligations to indemnify and to incur legal expenses on behalf of current and former directors and officers for these lawsuits. In addition, due to the high volatility of our stock price, we may be vulnerable to securities class action litigation. In addition, as a result of a prior SEC settlement, we forfeited for three years our ability to invoke the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Because we could not benefit from the statutory safe harbor from June 2008 through June 2011, it may be more difficult for us to defend against any future claims based on any forward-looking statements issued during that timeframe.

The ultimate outcome of any litigation could have a material adverse effect on our business and the trading price for our securities. Litigation may be time-consuming, expensive, and disruptive to normal business operations, and the outcome of litigation is difficult to predict. The defense of these lawsuits may result in significant expenditures and the continued diversion of our management's time and attention from the operation of our business, which could impede our business. In the event we were to receive an unfavorable outcome in any lawsuit, our business, financial condition, results of operations, cash flows and the trading price of our securities may be materially and adversely affected.

***We must comply with a variety of existing and future laws and regulations that could impose substantial costs on us and may adversely affect our business.***

We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of those products. In addition, we are also subject to various industry requirements restricting the presence of certain substances in electronic products. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with any of them, a range of consequences could result, including fines, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions.

We and our customers are also subject to various import and export laws and regulations. Government export regulations apply to the encryption or other features contained in some of our products. If we fail to continue to receive licenses or otherwise comply with these regulations, we may be unable to manufacture the affected products at foreign foundries or ship these products to certain customers, or we may incur penalties or fines.

There is also a regulation to improve the transparency and accountability concerning the supply of minerals coming from the conflict zones in and around the Democratic Republic of Congo. New U.S. legislation includes disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such conflict minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of semiconductor devices. As a result, there may only be a limited pool of suppliers who provide conflict-free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices.

The costs of complying with these laws could adversely affect our current or future business. In addition, future regulations may become more stringent or costly and our compliance costs and potential liabilities could increase, which may harm our current or future business.



---

## **Table of Contents**

***There can be no assurance that we will continue to declare cash dividends at all or in any particular amount, and statutory requirements under Bermuda Law, as well as ongoing litigation, may require us to defer payment of declared dividends.***

In May 2012, we announced the declaration of our first quarterly cash dividend. Future payment of a regular quarterly cash dividend on our common shares will be subject to, among other things, the best interests of our company, our results of operations, cash balances and future cash requirements, financial condition, statutory requirements under Bermuda law, developments in our ongoing litigation with CMU and other factors that the board of directors may deem relevant. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends at all or in any particular amounts. In addition, developments in ongoing litigation could affect our ability to make a dividend payment on a declared payment date until such time as we can meet statutory requirements under Bermuda law. A reduction in, a delay of, or elimination of our dividend payments could have a negative effect on our share price.

***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 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. Our management is responsible for maintaining effective internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting included 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. These inherent limitations include the realities that judgments in decision making can be faulty, breakdowns can occur because of simple errors, 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. 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, 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. 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.

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

Dr. Sehat Sutardja, our Chairman and Chief Executive Officer, and Weili Dai, who serves as our President, are husband and wife. Together, these two officers, along with a third related shareholder, held approximately 20% of our outstanding common shares as of March 1, 2014. 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 example, 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.

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 are generally not available to shareholders under the laws of Bermuda, although there is some suggestion that their use may be gaining favor. Bermuda law permits, in exceptional circumstances, the bringing of derivative actions, i.e., for a shareholder to bring an action in our name, when it would otherwise be an action that the company would bring itself. In order to bring a derivative action, a shareholder would have to show (i) fraud on the minority, that is acts which amount to an unconscionable use of majority power resulting or likely to result in loss or unfair discriminatory treatment of the minority; and (ii) that the alleged wrongdoers have control of the company. In addition, a shareholder may be able to bring a claim when the shareholder alleges that the wrong has been done to the shareholder personally in his or her capacity as shareholder. Typically, shareholders' personal claims arise from a breach or threatened breach of the bye-laws.



## **Table of Contents**

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 oppressive or prejudicial to the interest of some of such shareholders and others, 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.

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

Our buildings in Santa Clara, California; Singapore; Etoy, 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.

***As we carry only limited insurance coverage, any incurred liability resulting from uncovered claims could adversely affect our financial condition and results of operations.***

Our insurance policies may not be adequate to fully offset losses from covered incidents, and we do not have coverage for certain losses. For example, there is very limited coverage available with respect to the services provided by our third-party foundries and assembly and test subcontractors. In the event of a natural disaster (such as an earthquake or tsunami), political or military turmoil, widespread health issues or other significant disruptions to their operations, insurance may not adequately protect us from this exposure. We believe our existing insurance coverage is consistent with common practice, economic considerations and availability considerations. If our insurance coverage is insufficient to protect us against unforeseen catastrophic losses, any uncovered losses could adversely affect our financial condition and results of operations.

***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. In addition, 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.***

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

We are organized under the laws of Bermuda. As a result, it may not be possible for our shareholders to affect service of process within the United States upon us, or to enforce against us in U.S. 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 U.S. 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 U.S. federal or state securities laws, would not be automatically enforceable in Bermuda.

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 officer or director or to any matter arising under U.S. federal securities laws. This waiver will limit the rights of our

**Table of Contents**

shareholders to assert claims against our officers and directors unless the act complained of involves fraud or dishonesty or arises as a result of a breach of U.S. federal securities laws. Therefore, so long as acts of business judgment do not involve fraud or dishonesty or arise as a result of a breach of U.S. federal securities laws, 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 fraud or dishonesty, or arises as a result of a breach of U.S. federal securities laws.

***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; and

a shareholder vote requiring the approval of two-thirds of votes cast in person or by proxy to approve any business combination in the event the action is not approved by at least 66<sup>2/3</sup>% of the directors holding office at the date of the Board meeting to approve the action.

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

**Table of Contents**

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

There were no sales of unregistered securities during the three months ended May 3, 2014.

**Issuer Purchases of Equity Securities**

There were no common shares repurchased during the three months ended May 3, 2014.

In August 2010, our board of directors initially authorized our current share repurchase program to repurchase up to \$500 million of our outstanding common shares. Our board of directors authorized an additional \$1.5 billion in fiscal 2012 and \$1.0 billion in fiscal 2013 to be used to repurchase our common shares under the share repurchase program for a total available under the program of \$3.0 billion. We intend to effect share repurchases in accordance with the conditions of Rule 10b-18 under the Exchange Act, but may also make repurchases in the open market outside of Rule 10b-18 or in privately negotiated transactions. The share repurchase program will be subject to market conditions and other factors and does not obligate us to repurchase any dollar amount or number of our common shares and the repurchase program may be extended, modified, suspended or discontinued at any time.

**Item 6. *Exhibits***

See the Index to Exhibits immediately following the signature page of this Quarterly Report on Form 10-Q.

**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.

Date: June 5, 2014

By: /s/ Michael Rashkin  
**Michael Rashkin**  
*Chief Financial Officer*

**(Principal Financial Officer)**

**Table of Contents**

**EXHIBIT INDEX**

10.1#	Amended and Restated 1995 Stock Option Plan
10.2#	Form of Performance Award Agreement and Notice of Grant of Performance Award and Award Agreement for use with the Amended and Restated 1995 Stock Option Plan
31.1	Certification of Chief Executive Officer as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

# Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.

\* 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 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.