

MARVELL TECHNOLOGY GROUP LTD  
Form 10-Q  
December 06, 2013  
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 November 2, 2013

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, including Zip Code, of principal executive offices 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 November 27, 2013 was 491.9 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 November 2, 2013 and February 2, 2013</u>	2
<u>Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended November 2, 2013 and October 27, 2012</u>	3
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended November 2, 2013 and October 27, 2012</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended November 2, 2013 and October 27, 2012</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>	33
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	34
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
Item 6. <u>Exhibits</u>	49
<u>Signatures</u>	50
<u>Exhibit Index</u>	51

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

	November 2, 2013	February 2, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 796,330	\$ 751,953
Short-term investments	1,007,738	1,167,037
Accounts receivable, net	466,729	330,238
Inventories	380,412	250,420
Prepaid expenses and other current assets	57,888	77,282
Deferred income taxes	8,562	8,416
<b>Total current assets</b>	<b>2,717,659</b>	<b>2,585,346</b>
Property and equipment, net	358,150	372,971
Long-term investments	16,158	16,769
Goodwill	2,032,538	2,032,138
Acquired intangible assets, net	61,072	89,655
Other non-current assets	162,379	164,885
<b>Total assets</b>	<b>\$ 5,347,956</b>	<b>\$ 5,261,764</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 400,403	\$ 286,552
Accrued liabilities	139,039	143,991
Accrued employee compensation	131,160	117,195
Deferred income	86,370	60,150
<b>Total current liabilities</b>	<b>756,972</b>	<b>607,888</b>
Non-current income taxes payable	83,290	112,871
Other non-current liabilities	44,475	56,410
<b>Total liabilities</b>	<b>884,737</b>	<b>777,169</b>
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Common shares, \$0.002 par value	980	1,017
Additional paid-in capital	2,796,764	2,945,643
Accumulated other comprehensive income	57	1,148
Retained earnings	1,665,418	1,536,787
<b>Total shareholders' equity</b>	<b>4,463,219</b>	<b>4,484,595</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,347,956</b>	<b>\$ 5,261,764</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)

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net revenue	\$ 931,226	\$ 780,881	\$ 2,472,651	\$ 2,393,336
Operating costs and expenses:				
Cost of goods sold	464,981	374,503	1,186,478	1,122,664
Research and development	296,291	263,615	867,985	783,760
Selling and marketing	37,496	38,398	116,033	119,498
General and administrative	26,589	24,514	80,104	75,937
Amortization and write-off of acquired intangible assets	10,645	13,054	31,969	40,432
Total operating costs and expenses	836,002	714,084	2,282,569	2,142,291
Operating income	95,224	66,797	190,082	251,045
Interest and other income, net	1,536	2,387	12,949	9,308
Income before income taxes	96,760	69,184	203,031	260,353
Provision (benefit) for income taxes	(6,396)	368	(15,160)	3,920
Net income	\$ 103,156	\$ 68,816	\$ 218,191	\$ 256,433
Net income per share:				
Basic	\$ 0.21	\$ 0.12	\$ 0.44	\$ 0.45
Diluted	\$ 0.21	\$ 0.12	\$ 0.43	\$ 0.45
Weighted average shares:				
Basic	491,979	553,049	496,151	565,145
Diluted	501,189	559,348	502,401	574,804
Cash dividend declared per share	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.12

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>Nine Months Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>	<b>November 2, 2013</b>	<b>October 27, 2012</b>
Net income	\$ 103,156	\$ 68,816	\$ 218,191	\$ 256,433
Other comprehensive income, net of tax:				
Net change in unrealized gain/loss on marketable securities	1,335	(479)	(1,199)	394
Net change in unrealized gain/loss on auction rate securities	(141)		(311)	(112)
Net change in unrealized gain/loss on cash flow hedges	435	2,476	419	2,317
Other comprehensive income (loss), net	1,629	1,997	(1,091)	2,599
Comprehensive income	\$ 104,785	\$ 70,813	\$ 217,100	\$ 259,032

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)

	Nine Months Ended	
	November 2, 2013	October 27, 2012
<b>Cash flows from operating activities:</b>		
Net income	\$ 218,191	\$ 256,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,576	64,801
Share-based compensation	117,805	90,794
Amortization and write-off of acquired intangible assets	31,969	40,432
Other expense, net	5,994	6,435
Excess tax benefits from share-based compensation	(42)	(49)
Changes in assets and liabilities:		
Accounts receivable	(136,491)	32,493
Inventories	(129,450)	29,634
Prepaid expenses and other assets	15,012	15,993
Accounts payable	128,311	(27,137)
Accrued liabilities and other non-current liabilities	(20,510)	10,286
Accrued employee compensation	13,965	4,828
Deferred income	26,220	(501)
Net cash provided by operating activities	347,550	524,442
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(691,749)	(1,205,364)
Sales and maturities of available-for-sale securities	845,506	1,317,744
Investments in privately-held companies	(1,869)	(5,750)
Cash paid for acquisition, net	(2,551)	(1,000)
Purchases of technology licenses	(13,993)	(10,687)
Purchases of property and equipment	(53,283)	(49,090)
Net cash provided by investing activities	82,061	45,853
<b>Cash flows from financing activities:</b>		
Repurchase of common stock	(376,285)	(676,471)
Proceeds from employee stock plans	97,276	66,244
Minimum tax withholding paid on behalf of employees for net share settlement	(10,406)	(9,822)
Dividend payments to shareholders	(89,560)	(67,013)
Payments on technology license obligations	(6,301)	
Excess tax benefits from share-based compensation	42	49
Net cash used in financing activities	(385,234)	(687,013)
Net increase (decrease) in cash and cash equivalents	44,377	(116,718)
Cash and cash equivalents at beginning of period	751,953	784,902
Cash and cash equivalents at end of period	\$ 796,330	\$ 668,184

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 ARM-based microprocessor integrated circuits. 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 and other consumer electronics, Ethernet-based wireless networking, personal area networking, Ethernet-based PC connectivity, control plane communications controllers, video-image processing and power management solutions.

***Reclassification***

Certain amounts in the unaudited condensed consolidated financial statements and notes to the unaudited condensed consolidated financial statements for prior years have been reclassified to conform to the fiscal 2014 presentation. Net operating results have not been affected by these reclassifications.

***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 2014 has a 52-week period and fiscal 2013 had a 53-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 November 2, 2013, the results of its operations for the three and nine months ended November 2, 2013 and October 27, 2012, its comprehensive income for the three and nine months ended November 2, 2013 and October 27, 2012, and its cash flows for the nine months ended November 2, 2013 and October 27, 2012. The February 2, 2013 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 2, 2013, 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 2, 2013 as filed on March 29, 2013 with the Securities and Exchange Commission. The results of operations for the three and nine months ended November 2, 2013 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 on-going 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.



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

**Note 2. Recent Accounting Pronouncements**

The Company adopted the new accounting standard regarding the testing of indefinite-lived intangible assets for impairment at the beginning of fiscal 2014. This amended guidance allows an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with the guidance on the impairment of intangible assets other than goodwill. The adoption of this guidance had no impact on the Company's financial statements.

The Company adopted the new accounting standard regarding the reporting of amounts reclassified out of accumulated other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either in the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The Company elected to disclose the information in the Notes to Unaudited Condensed Consolidated Financial Statements beginning in fiscal 2014.

**Note 3. Investments**

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

	Amortized Cost	November 2, 2013 Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Short-term investments:</b>				
Available-for-sale:				
Corporate debt securities	\$ 588,021	\$ 2,262	\$ (791)	\$ 589,492
U.S. government and agency debt	309,216	129	(82)	309,263
Asset backed securities	74,431	65	(52)	74,444
Foreign government and agency debt	20,307	25	(40)	20,292
Municipal debt securities	14,220	28	(1)	14,247
Total short-term investments	1,006,195	2,509	(966)	1,007,738
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	19,150		(2,992)	16,158
Total long-term investments	19,150		(2,992)	16,158
Total investments	\$ 1,025,345	\$ 2,509	\$ (3,958)	\$ 1,023,896

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

	February 2, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Short-term investments:</b>				
Available-for-sale:				
Corporate debt securities	\$ 577,120	\$ 2,886	\$ (382)	\$ 579,624
U.S. government and agency debt	318,226	258	(5)	318,479
Time deposits	188,000			188,000
Asset backed securities	76,629	50	(64)	76,615
Foreign government and agency debt	4,320		(1)	4,319
Total short-term investments	1,164,295	3,194	(452)	1,167,037
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	19,450		(2,681)	16,769
Total long-term investments	19,450		(2,681)	16,769
Total investments	\$ 1,183,745	\$ 3,194	\$ (3,133)	\$ 1,183,806

As of November 2, 2013, the Company's investment portfolio included auction rate securities with an aggregate par value of \$19.2 million. 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, 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 November 2, 2013 was \$3.0 million less than the par value and was recorded in long-term investments. Based on the Company's balance of approximately \$1.8 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.

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

	November 2, 2013		February 2, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 292,105	\$ 292,286	\$ 519,006	\$ 519,537
Due between one and five years	698,295	699,657	627,769	629,991
Due over five years	34,945	31,953	36,970	34,278
	\$ 1,025,345	\$ 1,023,896	\$ 1,183,745	\$ 1,183,806



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

For individual securities that are in an 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		November 2, 2013 12 months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Loss	Value	Loss	Value	Loss
Corporate debt securities	\$ 177,743	\$ (791)	\$	\$	\$ 177,743	\$ (791)
U.S. government and agency debt	68,807	(82)			68,807	(82)
Asset backed securities	44,700	(35)	1,917	(17)	46,617	(52)
Foreign government and agency debt	12,968	(40)			12,968	(40)
Municipal debt securities	275	(1)			275	(1)
Auction rate securities			16,158	(2,992)	16,158	(2,992)
<b>Total securities</b>	<b>\$ 304,493</b>	<b>\$ (949)</b>	<b>\$ 18,075</b>	<b>\$ (3,009)</b>	<b>\$ 322,568</b>	<b>\$ (3,958)</b>

	Less than 12 months		February 2, 2013 12 months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Loss	Value	Loss	Value	Loss
Corporate debt securities	\$ 141,915	\$ (382)	\$	\$	\$ 141,915	\$ (382)
Asset backed securities	43,882	(64)			43,882	(64)
U.S. government and agency debt	14,677	(5)			14,677	(5)
Foreign government and agency debt	4,319	(1)			4,319	(1)
Auction rate securities			16,769	(2,681)	16,769	(2,681)
<b>Total securities</b>	<b>\$ 204,793</b>	<b>\$ (452)</b>	<b>\$ 16,769</b>	<b>\$ (2,681)</b>	<b>\$ 221,562</b>	<b>\$ (3,133)</b>

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

	November 2, 2013	February 2, 2013
<b>Inventories:</b>		
Work-in-process	\$ 232,382	\$ 140,805
Finished goods	148,030	109,615
<b>Inventories</b>	<b>\$ 380,412</b>	<b>\$ 250,420</b>
	November 2, 2013	February 2, 2013
<b>Property and equipment, net:</b>		
Machinery and equipment	\$ 557,477	\$ 532,420
Buildings	144,320	144,320

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

Computer software	95,233	89,548
Land	53,373	53,373
Building improvements	49,614	49,516
Leasehold improvements	49,040	46,205
Furniture and fixtures	27,639	25,301
Construction in progress	1,634	5,333
	978,330	946,016
Less: Accumulated depreciation and amortization	(620,180)	(573,045)
Property and equipment, net	\$ 358,150	\$ 372,971



Table of Contents

## MARVELL TECHNOLOGY GROUP LTD.

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

	November 2, 2013	February 2, 2013
<b>Other non-current assets:</b>		
Technology and other licenses	\$ 75,325	\$ 81,523
Deferred tax assets	25,884	26,291
Investments in privately-held companies	15,065	14,486
Prepaid land use rights	13,822	14,056
Deposits	13,331	10,451
Other	18,952	18,078
Other non-current assets	\$ 162,379	\$ 164,885

Prepaid land use rights, which were previously included in property and equipment, have been reclassified to other non-current assets. The revision to the balance sheet at February 2, 2013 was not considered to be material and it had no impact on total assets, total liabilities, results of operations or cash flows.

	November 2, 2013	February 2, 2013
<b>Accrued liabilities:</b>		
Accrued rebates	\$ 57,984	\$ 51,712
Accrued legal expense	13,701	14,754
Accrued royalties	25,518	16,298
Technology license obligations	11,510	9,865
Accrued share repurchases		22,152
Other	30,326	29,210
Accrued liabilities	\$ 139,039	\$ 143,991

	November 2, 2013	February 2, 2013
<b>Other non-current liabilities:</b>		
Technology license obligations	\$ 27,808	\$ 34,270
Long-term accrued employee compensation	6,333	6,205
Other	10,334	15,935
Other non-current liabilities	\$ 44,475	\$ 56,410

**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	Unrealized Gain (Loss) on Auction Rate	Unrealized Gain (Loss) on Cash	Total
--	--	--------------------------------------	-------

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

	<b>Securities</b>	<b>Securities</b>	<b>Flow Hedges</b>	
Balance at February 2, 2013	\$ 2,742	\$ (2,681)	\$ 1,087	\$ 1,148
Other comprehensive (loss) income before reclassifications	(276)	(311)	3,103	2,516
Amounts reclassified from accumulated other comprehensive income	(923)		(2,684)	(3,607)
Net current-period other comprehensive income (loss)	(1,199)	(311)	419	(1,091)
Balance at November 2, 2013	\$ 1,543	\$ (2,992)	\$ 1,506	\$ 57

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

	Unrealized Gain (Loss) on Marketable Securities	Unrealized Gain (Loss) on Auction Rate Securities	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balance at January 28, 2012	\$ 3,702	\$ (1,285)	\$ (1,641)	\$ 776
Other comprehensive income (loss) before reclassifications	2,097	(112)	(529)	1,456
Amounts reclassified from accumulated other comprehensive income	(1,703)		2,846	1,143
Net current-period other comprehensive income (loss)	394	(112)	2,317	2,599
Balance at October 27, 2012	\$ 4,096	\$ (1,397)	\$ 676	\$ 3,375

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

Affected Line Item in the Statement of Operations	November 2, 2013	
	Three Months Ended	Nine Months Ended
Available-for-sale securities:		
Interest and other income, net	\$ 380	\$ 923
Cash flow hedges:		
Cost of goods sold	41	149
Research and development	648	2,319
Selling and marketing	53	198
General and administrative	5	18
Total	\$ 1,127	\$ 3,607

**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		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Numerator:				
Net income	\$ 103,156	\$ 68,816	\$ 218,191	\$ 256,433
Denominator:				
Weighted average common shares outstanding:	491,979	553,049	496,151	565,145
Effect of dilutive securities:				
Common share-based awards	9,210	6,299	6,250	9,659

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

Weighted average shares	diluted	501,189	559,348	502,401	574,804
Net income per share:					
Basic		\$ 0.21	\$ 0.12	\$ 0.44	\$ 0.45
Diluted		\$ 0.21	\$ 0.12	\$ 0.43	\$ 0.45

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

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Anti-dilutive potential common shares:				
Weighted average shares outstanding from stock options	43,167	42,149	39,854	27,560
Weighted average exercise price	\$ 14.71	\$ 15.43	\$ 15.18	\$ 17.67

Anti-dilutive potential common 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 November 2, 2013 and October 27, 2012 was lower than the required market condition. For the three and nine months ended November 2, 2013, there were 2.7 million anti-dilutive shares from stock options that contain market conditions. For the corresponding three and nine months ended October 27, 2012, there were 3.0 million and 3.1 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. 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.

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

	Buy Contracts	
	November 2, 2013	February 2, 2013
Euro	\$ 5,718	\$
Israeli shekel	58,898	38,249
Swedish krona	3,968	
	\$ 68,584	\$ 38,249

*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. 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:

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

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 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 0.3% of total assets as of November 2, 2013.

The tables below set forth, by level, the Company's assets that were accounted for at fair value as of November 2, 2013 and February 2, 2013. 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 November 2, 2013
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
Money market funds	\$ 8,378	\$	\$	\$ 8,378
Time deposits		216,359		216,359
Municipal debt securities		5,700		5,700
Corporate debt securities		1,600		1,600
Short-term investments:				
U.S. government and agency debt	309,263			309,263
Corporate debt securities		589,492		589,492
Asset backed securities		74,444		74,444
Foreign government and agency debt		20,292		20,292
Municipal debt securities		14,247		14,247
Prepaid expenses and other current assets:				
Forward contracts		1,618		1,618
Long-term investments:				
Auction rate securities			16,158	16,158
Other non-current assets:				
Severance pay fund		2,104		2,104

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

Total assets	\$ 317,641	\$ 925,856	\$ 16,158	\$	1,259,655
--------------	------------	------------	-----------	----	-----------



**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 2, 2013
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
U.S. government and agency debt	\$ 27,029	\$	\$	\$ 27,029
Money market funds	21,523			21,523
Time deposits		119,874		119,874
Short-term investments:				
U.S. government and agency debt	318,479			318,479
Corporate debt securities		579,624		579,624
Time deposits		188,000		188,000
Asset backed securities		76,615		76,615
Foreign government and agency debt		4,319		4,319
Prepaid expenses and other current assets:				
Forward contracts		1,144		1,144
Long-term investments:				
Auction rate securities			16,769	16,769
Other non-current assets:				
Severance pay fund		1,977		1,977
<b>Total assets</b>	<b>\$ 367,031</b>	<b>\$ 971,553</b>	<b>\$ 16,769</b>	<b>\$ 1,355,353</b>

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

	Nine Months Ended	
	November 2, 2013	October 27, 2012
Beginning balance	\$ 16,769	\$ 23,215
Sales and redemptions	(300)	(5,000)
Unrealized losses included in accumulated other comprehensive income	(311)	(112)
Ending balance	\$ 16,158	\$ 18,103

**Note 7. Goodwill and Acquired Intangible Assets, Net****Goodwill**

The following table summarizes the activity related to the carrying value of goodwill (in thousands):

Balance at February 2, 2013	\$ 2,032,138
Additions due to business combinations	400

Balance at November 2, 2013	\$ 2,032,538
-----------------------------	--------------

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

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

	Range of Useful Lives	Gross Carrying Amounts	November 2, 2013 Accumulated Amortization and Write-Offs	Net Carrying Amount	Gross Carrying Amounts	February 2, 2013 Accumulated Amortization and Write-Offs	Net Carrying Amount
Purchased technology	4 - 7 years	\$ 54,690	\$ (25,313)	\$ 29,377	\$ 54,690	\$ (18,552)	\$ 36,138
Core technology	5 - 8 years	138,650	(137,793)	857	138,650	(123,298)	15,352
Trade names	5 years	1,300	(503)	797	1,300	(308)	992
Customer intangibles	5 - 7 years	89,400	(72,445)	16,955	89,400	(61,927)	27,473
IPR&D	*	13,086		13,086	9,700		9,700
Total intangible assets, net		\$ 297,126	\$ (236,054)	\$ 61,072	\$ 293,740	\$ (204,085)	\$ 89,655

\* Upon completion of projects, the related in-process research and development ( IPR&D ) assets will be amortized over its estimated useful life. If any of the projects are abandoned or the forecast of the project indicates that the fair value is less than the carrying amount, the Company will be required to write down the related IPR&D asset.

Based on the identified intangible assets recorded at November 2, 2013, the future amortization expense excluding IPR&D for the next five fiscal years is as follows (in thousands):

Fiscal year	
Remainder of fiscal 2014	\$ 3,809
2015	14,942
2016	12,203
2017	11,018
2018	5,590
Thereafter	424
	\$ 47,986

**Note 8. Restructuring**

The Company recorded a \$4.2 million charge primarily related to the closure of two sites in the three months ended November 2, 2013. This amount included \$2.8 million of severance costs, \$1.3 million for other exit-related costs in connection with vacating three facilities and \$0.1 million for the write off of equipment. All activities related to the closure of the two sites were substantially completed by the end of the quarter.

During the nine months ended November 2, 2013, the Company also continued to make payments and incur on-going operating expenses related to vacated facilities under previous restructure actions.

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

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Research and development	\$ 2,886	\$ 2	\$ 2,886	\$ 46
Selling and marketing	795	(3)	795	(3)
General and administrative	527	130	933	1,060
	\$ 4,208	\$ 129	\$ 4,614	\$ 1,103

**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 nine months ended November 2, 2013 (in thousands):

	Severance and Related Costs	Facilities and Related Costs	Other Exit-Related Costs	Total
Balance at February 2, 2013	\$	\$ 2,855	\$	\$ 2,855
Restructuring charges	2,786	1,554	213	4,553
Net cash payments	(642)	(1,323)	(182)	(2,147)
Balance at November 2, 2013	\$ 2,144	\$ 3,086	\$ 31	\$ 5,261

The severance costs included in the table above are expected to be paid in the fourth quarter of fiscal 2014. The facility and related costs primarily represent payments under lease obligations of vacated facilities associated with the closure of two sites in the three months ended November 2, 2013 which are expected to be paid through fiscal 2015.

The balance at November 2, 2013 for facility and related costs also 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 November 2, 2013 included the current income tax liability of \$4.3 million, which was offset by a net reduction in unrecognized tax benefits of \$7.3 million, a \$2.5 million tax benefit due to return-to-provision adjustments upon the filing of tax returns and a \$0.9 million tax benefit from an increase in the deferred tax asset of a non-U.S. entity due to a change in its statutory tax rate. The net reduction in unrecognized tax benefits arose from the expiration of the statute of limitations, less an increase in current unrecognized tax benefit estimates.

The income tax benefit for the nine months ended November 2, 2013 included the current income tax liability of \$11.3 million plus \$0.7 million in settlements of audits in non-U.S. jurisdictions, which were offset by a net reduction in unrecognized tax benefits of \$23.8 million, a \$2.5 million tax benefit due to return-to-provision adjustments upon filing of tax returns in three months ended November 2, 2013 and a \$0.9 million tax benefit from an increase in the deferred tax asset of a non-U.S. entity due to a change in its statutory tax rate in the three months ended November 2, 2013. The net reduction in unrecognized tax benefits primarily arose from the expiration of statute of limitations in non-U.S. jurisdictions and from the settlement of two audits in non-U.S. jurisdictions (one for \$3.5 million and the other for \$4.1 million), less an increase in current unrecognized tax estimates.

The income tax provision for the three and nine months ended October 27, 2012 included the current income tax liability of \$5.9 million and \$14.5 million, respectively, which were partially offset by a net reduction in unrecognized tax benefits of \$5.5 million in the three months ended October 27, 2012 and \$11.5 million in the nine months ended October 27, 2012. These net reductions in unrecognized tax benefits arose primarily from the expiration of the statute of limitations in non-U.S. jurisdictions, less an increase 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 \$20 million from the lapse of the statutes of limitation in various jurisdictions during the next 12 months.

The Company operates under tax holidays in certain countries, which may be extended if certain additional requirements are satisfied. The tax holidays are conditional upon meeting certain employment and investment thresholds. The impact of these tax holidays decreased foreign taxes by \$14.9 million for the nine months ended November 2, 2013. The benefit of the tax holidays on net income per share was less than \$0.01 per

share for the nine months ended November 2, 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 November 2, 2013, these foundries had incurred approximately \$240.2 million of manufacturing costs and expenses relating to the Company's outstanding purchase orders.

---

**Table of Contents**

**MARVELL TECHNOLOGY GROUP LTD.**

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

***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.

***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 November 2, 2013, the Company has recorded a total charge of \$10.4 million 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. Due to the finding of willfulness during post trial proceedings, the judge could enhance the damages by an amount up to triple the damages awarded by the jury at trial. In addition, CMU has disclosed in its post trial motions that it is seeking pre-judgment interest up to \$322 million, post-judgment interest, 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 the motion for a forthcoming 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. CMU requested expedited briefing but the District Court has not set a briefing schedule for CMU's latest motions, and has yet to rule on the Company's laches defense as well as CMU's injunction motion. The Company expects the District Court to issue its final judgment at any time.

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

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

the possible loss, as a number of factors (including finalization of the post-trial motions at the District Court) could significantly change the assessment of damages.

*Jasmine Networks Litigation.* On September 12, 2001, Jasmine Networks, Inc. ( Jasmine ) filed a lawsuit in the Santa Clara County Superior Court alleging claims against MSI and three of its officers for allegedly improperly obtaining and using information and technologies during the course of the negotiations with its personnel regarding the potential acquisition of certain Jasmine assets by MSI.



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

The case proceeded to trial on September 20, 2010. On November 24, 2010, a Santa Clara County jury returned a verdict in favor of MSI on all claims. On January 7, 2011, the court entered judgment in MSI's favor. Pursuant to California Civil Procedure provisions, Jasmine filed motions for a new trial and for a judgment notwithstanding the verdict. These motions were heard by the court on February 25, 2011 and denied in written orders. Jasmine has appealed and MSI is contesting the appeal vigorously. Oral arguments on the appeal were heard on June 18, 2013. On July 17, 2013, the Court of Appeals unanimously affirmed judgment in favor of MSI. It is unknown whether Jasmine will appeal to the California Supreme Court. The deadline for Jasmine to appeal to the California Supreme Court passed on August 26, 2013 without Jasmine taking any further action.

*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.

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 Patent I 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.

*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).

*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.

*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, asserting infringement of U.S. Patent Nos. 6,473,349 and 6,862,208 (collectively, the PSS patents ). The PSS 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.

*APT Patent Litigations.* On January 18, 2011, Advanced Processor Technologies, LLC ( APT ), a subsidiary of Acacia Research Corp., filed a complaint in the U.S. District Court for the Eastern District of Texas. The complaint names MSI and eight other defendants and alleged infringement of U.S. Patent Nos. 6,047,354 and 5,796,978. In April 2013, the parties reached an agreement to dismiss all claims and counterclaims. On June 25, 2013, MSI was dismissed from the cases. The resolution did not have a significant impact on the Company's financial statements.

*MOSAID Litigation.* On March 16, 2011, MOSAID Technologies Inc. filed suit in the U.S. District Court for the Eastern District of Texas against MSI and 16 other companies. The complaint alleges that defendants' products, which operate in compliance with various IEEE 802.11

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

standards, infringe the six asserted patents (U.S. Patent Nos. 5,131,006; 5,151,920; 5,422,887; 5,706,428; 6,563,768; 6,992,972). MSI filed its answer and counterclaims on June 9, 2011. On March 28, 2012, MSI and other defendants filed a motion to transfer, which was denied. A claim construction hearing was held on April 16, 2013 and a claim construction ruling was issued by the magistrate judge on April 22, 2013. On June 3, 2013, the District Court issued an order denying plaintiff's motion for reconsideration and adopted the magistrate's claim construction ruling. On September 20, 2013, MSI and MOSAID entered a license agreement that settled the pending disputes between the parties, and on October 11, 2013, MSI was dismissed from the case. 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)**

*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, 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.

*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.

*HSM/TPL Litigation.* On September 1, 2011, HSM Portfolio, LLC and Technology Properties Limited, LLC filed a complaint against the Company and MSL in the U.S. District Court for the District of Delaware. The complaint also named numerous other defendants. The complaint asserted U.S. Patent No. 5,030,853, relating to high speed logic and memory circuitry, against various products. The complaint sought unspecified damages. On January 9, 2012, HSM/TPL filed an amended complaint adding MSI to the case. On February 15, 2012, the Company and MSL were dismissed from the case. On June 10, 2013, MSI and HSM/TPL reached a settlement and on June 25, 2013, MSI was dismissed from the case. The settlement did not have a significant impact on the Company's financial statements.

*France Telecom Litigation.* On June 26, 2012, France Telecom S.A. (France Telecom) 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 is set for December 13, 2013. Trial is scheduled for May 12, 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. The complaint asserts U.S. Patent Nos. 6,920,316, 5,825,640, 5,943,274, 5,467,455 and 7,927,927 against certain of the Company's integrated circuits and/or chipsets. The complaint seeks unspecified damages and a permanent injunction. Freescale filed an amended complaint on January 14, 2013, and withdrew its assertion of U.S. Patent No. 5,825,640; MSI filed its answer to the amended complaint on February 4, 2013. This case has been consolidated for pre-trial purposes with nine other pending cases. A claim construction hearing was held on October 24, 2013, and will be completed on December 13, 2013. No trial date has been set.

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 filed an amended complaint on January 14, 2013. The amended complaint alleges that Freescale infringes U.S. Patents Nos. 6,903,448 and 7,379,718. A claim construction hearing is scheduled for December 13, 2013. No trial date has been set.

***Surety Bond***

The Company plans to appeal the final judgment issued by the District Court in the CMU litigation, regardless of the dollar amount of the final judgment. The Company anticipates that it will need a surety bond in connection with the Company's appeal of the judgment to the U.S. Court of Appeals for the Federal Circuit in Washington D.C., or possibly sooner while rulings on the remaining post-trial motions are pending. During October 2013, the Company entered into indemnity agreements with a consortium of insurers that would provide financial assurance that each of the insurers will be indemnified by the Company should a loss occur under a surety bond. The Company expects that under a surety bond, the surety companies would agree to guarantee to the District Court in Pittsburgh the Company's payment of a specific amount, to be determined.

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

Under a surety bond, cash, cash equivalents, and short term investments may need to be posted as collateral and classified as restricted cash in future filings. As of November 2, 2013 and as of the date of this filing, no surety bond has been issued. Therefore, these indemnity agreements have had no impact to the Company's Condensed Consolidated Balance Sheets as of November 2, 2013.

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****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 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 nine months ended November 2, 2013 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 2, 2013	49,637	\$ 13.28	2,759	\$ 15.43	52,396	\$ 13.39
Granted	18,763	\$ 10.79			18,763	\$ 10.79
Exercised	(7,275)	\$ 8.36			(7,275)	\$ 8.36
Canceled/Forfeited	(2,631)	\$ 15.22	(53)	\$ 15.43	(2,684)	\$ 15.23
Balance at November 2, 2013	58,494	\$ 13.01	2,706	\$ 15.43	61,200	\$ 13.11
Vested or expected to vest at November 2, 2013	54,756	\$ 13.11				
Exercisable at November 2, 2013	33,914	\$ 13.85				

For time-based stock options vested and expected to vest at November 2, 2013, the aggregate intrinsic value was \$66.5 million and the weighted average remaining contractual term was 5.6 years. For time-based stock options exercisable at November 2, 2013, the aggregate intrinsic value was \$46.1 million and the weighted average remaining contractual term was 3.5 years. The aggregate intrinsic value of stock options exercised during the three months ended November 2, 2013 and October 27, 2012 was \$5.6 million and \$6.0 million, respectively. The aggregate intrinsic value of stock options exercised during the nine months ended November 2, 2013 and October 27, 2012 was \$21.7 million and \$29.7 million, respectively. There was no aggregate intrinsic value for market-based stock options at November 2, 2013 and the weighted average remaining contractual term of market-based stock options vested and expected to reach the end of the vesting period at November 2, 2013 was 7.5 years. The Company's closing stock price of \$12.02 as reported on the NASDAQ Global Select Market for all in-the-money options as of November 1, 2013 was used to calculate the aggregate intrinsic value.

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

As of November 2, 2013, the unamortized compensation expense for time-based stock options was \$71.4 million and market-based stock options was \$0.7 million. The unamortized compensation expense for time-based and market-based stock options will be amortized on a straight-line basis and is expected to be recognized over a weighted-average period of 3.1 years and 0.2 years, respectively.

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

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):

	<b>Restricted Stock Units Outstanding</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance at February 2, 2013	12,739	\$ 15.78
Granted	3,509	\$ 10.56
Vested	(3,729)	\$ 16.31
Canceled/Forfeited	(902)	\$ 14.40
Balance at November 2, 2013	11,617	\$ 14.14

The aggregate intrinsic value of restricted stock units expected to vest as of November 2, 2013 was \$127.8 million. The number of restricted stock units that are expected to vest is 10.6 million shares.

As of November 2, 2013, unamortized compensation expense related to restricted stock units was \$106.0 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 1.9 years.

***Employee Stock Purchase Plan***

During the three months ended November 2, 2013 and October 27, 2012, the Company issued no shares under the 2000 Employee Stock Purchase Plan, as amended and restated (the ESPP). A total of 5.0 million shares were issued at a weighted-average price of \$7.34 per share in the nine months ended November 2, 2013 and a total of 3.3 million shares were issued at a weighted-average price of \$10.40 per share under the ESPP in the nine months ended October 27, 2012. As of November 2, 2013, there was \$27.9 million of unrecognized compensation cost related to the ESPP.

***Share Repurchase Program***

The Company repurchased 6.1 million of its common shares for \$71.3 million in cash during the three months ended November 2, 2013 and 22.9 million of its common shares for \$203.0 million in cash during the three months ended October 27, 2012. The Company repurchased 33.2 million common shares for \$354.1 million in cash during the nine months ended November 2, 2013 and 57.3 million common shares for \$676.5 million in cash during the nine months ended October 27, 2012. 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 November 2, 2013, 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 \$29.6 million in the three months ended November 2, 2013 and cash dividends of \$0.18 per share were paid for a total of \$89.6 million in the nine months ended November 2, 2013. Cash dividends of \$0.06 per share were paid for a total of \$33.5 million in the three months ended October 27, 2012 and cash dividends of \$0.12 per share were paid for a total of \$67.0 million in the nine months ended October 27, 2012.

On November 21, 2013, the Company announced that its board of directors declared a cash dividend of \$0.06 per share to be paid on December 23, 2013 to shareholders of record as of December 12, 2013.

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

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 on-going 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):

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Cost of goods sold	\$ 2,531	\$ 1,944	\$ 6,266	\$ 5,842
Research and development	30,084	22,565	82,345	62,152
Selling and marketing	3,738	3,101	10,778	9,595
General and administrative	6,848	2,764	18,416	13,205
	\$ 43,201	\$ 30,374	\$ 117,805	\$ 90,794

Share-based compensation capitalized in inventory was \$2.0 million at November 2, 2013 and \$1.5 million at February 2, 2013.

**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:

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
<b>Time-based Stock Options:</b>				
Weighted average fair value	\$ 3.91	\$ 3.27	\$ 3.42	\$ 5.57
Expected volatility	42%	46%	45%	44%
Expected term (in years)	5.0	4.8	5.0	4.8
Risk-free interest rate	1.5%	0.7%	0.8%	0.9%
Expected dividend yield	2.0%	2.3%	2.4 %	0-2.3%

	Nine Months Ended	
	November 2, 2013	October 27, 2012
<b>Employee Stock Purchase Plan:</b>		
Estimated fair value	\$ 3.45	\$ 3.77
Volatility	40%	39%
Expected term (in years)	1.3	1.3
Risk-free interest rate	0.2%	0.2%
Dividend yield	2.2%	2.0%

Under the ESPP, there were no stock purchase rights granted in the three months ended November 2, 2013 and October 27, 2012.

**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 full certification in North America by the end of the year for our LTE solution; our ability to develop a single chip solution in the storage market that can drive lower price points and allow the market to grow; 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 fourth quarter ending February 1, 2014 compared with the third quarter ended November 2, 2013; 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 leading global 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 ARM-based microprocessor integrated circuits. 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 compared to individual components. Our broad product portfolio includes devices for data storage, enterprise-class Ethernet data switching, Ethernet physical-layer transceivers, mobile handsets and other consumer electronics, Ethernet-based wireless networking, personal area networking, Ethernet-based PC connectivity, control plane communications controllers, video-image processing and power management solutions. Our products serve diverse applications used in carrier, metropolitan, enterprise



## **Table of Contents**

and PC-client data communications and storage systems. Additionally, we serve the consumer electronics market for the convergence of voice, video and data applications. We are a fabless integrated circuit company, which means that we rely on independent, third party contractors to perform manufacturing, assembly and test functions. This approach allows us to focus on designing, developing and marketing our products and significantly reduces the amount of capital we need to invest in manufacturing products.

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.

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 2, 2013.

## **Results of Operations**

Net revenue for the three months ended November 2, 2013 was higher by 19% compared to the three months ended October 27, 2012, 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 15% during the third quarter of fiscal 2014 compared to the second quarter of fiscal 2014 as we continued to see traction for mobile handsets and tablets based on our 3G unified platform, increased demand for our wireless products driven by the ramp up of new gaming platforms at two of our customers and stabilization in storage. We believe our sustained investments in advanced technologies leading to new innovations are beginning to pay off. 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 drives ( SSDs ).

In the mobile market, our 3G unified platform is in mass production at multiple top tier OEMs. For example, Samsung has successfully launched their 7-inch Galaxy Tab 3 globally based on our dual-core platform and China Mobile has selected our dual-core platform to launch its first branded smartphone. In addition to our dual-core devices, our quad-core platform is now 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. We continue to make steady progress with our LTE solution, which passed qualifications in China, and is expected to achieve full certification in North America by the end of this year. Certification of our LTE solution at one major North American carrier is the latest milestone in our deployment of LTE technology.

In the wireless connectivity market, one of the new design wins is in the Google Chromecast, an innovative new product that allows consumers to seamlessly connect and stream video content from a small screen mobile device to any large screen. In the gaming market, our wireless connectivity solutions are being used in the new game consoles that are being launched for the holiday season. We expect wireless connectivity and other advanced features in these new game consoles to help drive growth for us in the industry in the upcoming year. In addition, in the smart phone market, we have on-going 100% attach rates on our new mobile platforms for

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

our connectivity solutions with our 3G and 4G mobile platforms. We are seeing new opportunities for our connectivity solutions across multiple market segments.

In the storage market, we continue to execute well as the overall drive industry seems to have stabilized. We continue to grow within the hard disk drive ( HDD ) market as we have seen strong demand for our 500 gigabyte per platter products. In addition, we are seeing increased demand on enterprise drives at a top North America based HDD customer. Within the SSD market, our

---

**Table of Contents**

revenue has continued to grow and our strategy of partnering with top tier OEMs has resulted in excellent traction for our advanced SSD solutions. Our PCIe SSD solutions are now in mass production and we believe we have a lead in the market. We are also leveraging our technology leadership in HDD and SSD to help our customer migrate to hybrid storage devices. Here we are developing a single-chip solution that we believe will drive lower price points and allow the market to grow.

In the networking market, we experienced softer than expected demand from some of our enterprise networking customers in the third quarter of fiscal 2014 due to a weaker market overall, but we saw some improvement in Ethernet PHY products and a recovery in our PON products. However, we remain cautious and expect the recovery of the market to take longer than previously expected. We continue to make strong progress with development design activity for our product portfolio addressing the infrastructure portion of the market. We recently announced our first 28nm network processor and traffic management solutions with our Xelerated AX and HX family of products targeting the infrastructure market, where we have engaged with Tier-1 customers on these new high-performance products for their next generation networking equipment. We are making steady progress in increasing our footprint in the infrastructure market while continuing to take measures to improve our enterprise related business.

Our gross margin for the three months ended November 2, 2013 decreased compared to both the three months ended August 3, 2013 and October 27, 2012. As we expand our presence and grow revenue in the consumer space, 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 growth in the consumer space 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 remain committed to deliver shareholder value through our share repurchase and dividend programs.

Our cash, cash equivalents and short-term investments were \$1.8 billion at November 2, 2013 and we generated cash flow from operations of \$347.6 million through the third quarter of fiscal 2014.

We paid a cash dividend of \$0.06 per share for a total of \$29.6 million during the third quarter of fiscal 2014 and we recently announced a dividend of \$0.06 per share to be paid during the fourth quarter of fiscal 2014.

We repurchased a total of 6.1 million of our common shares for \$71.3 million in cash during the third quarter of fiscal 2014.

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 CMU has sought pre-judgment damages of up to \$322 million, post-judgment interest, attorneys fees, and an injunction and/or ongoing royalties. Due to the finding of willfulness during post trial proceedings, the judge could enhance the damages by an amount up to triple the damages awarded by the jury at trial. We intend to appeal the final judgment and we would seek to stay any award of damages 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:

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net revenue	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Cost of goods sold	49.9	48.0	48.0	46.9
Research and development	31.8	33.8	35.1	32.7
Selling and marketing	4.0	4.9	4.7	5.0
General and administrative	2.9	3.1	3.2	3.2
Amortization and write-off of acquired intangible assets	1.2	1.7	1.3	1.7
Total operating costs and expenses	89.8	91.5	92.3	89.5
Operating income	10.2	8.5	7.7	10.5
Interest and other income, net	0.2	0.3	0.5	0.4
Income before income taxes	10.4	8.8	8.2	10.9
Provision (benefit) for income taxes	(0.7)	0.0	(0.6)	0.2
Net income	11.1%	8.8%	8.8%	10.7%

**Three and nine months ended November 2, 2013 and October 27, 2012***Net Revenue*

	Three Months Ended			Nine Months Ended		
	November 2, 2013	October 27, 2012	% Change	November 2, 2013	October 27, 2012	% Change
Net revenue	\$ 931,226	\$ 780,881	19.3%	\$ 2,472,651	\$ 2,393,336	3.3%

Net revenue for the three months ended November 2, 2013 increased by \$150.3 million or 19.3%, compared to the three months ended October 27, 2012. Net revenue for our mobile and wireless products increased significantly, due to successful launches of our new multi-core 3G mobile devices with key OEM's into mobile handsets and tablets, and the increased demand for our wireless products driven by the ramp up of new gaming platforms at two of our customers. 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 solid-state drive controllers increased significantly compared to the prior year, as these products continue to gain traction and popularity. Revenue for products in our networking market was lower in the three months ended November 2, 2013 compared to the prior year due to softer than expected demand from enterprise customers.

Net revenue for the nine months ended November 2, 2013 increased by and \$79.3 million or 3.3% compared to the nine months ended October 27, 2012. This increase was driven by our storage products, as we continued to see growth for our 500 gigabyte per platter products and increased demand for enterprise drives at a top North America based HDD customer. These increases were partially offset by slightly lower revenue for our mobile and wireless products. Despite the significant increase in revenue for our mobile and wireless products in the three months ended November 2, 2013, revenue for the combined nine months was lower since the revenue for the nine months ended October 27, 2012 included significantly higher revenue from a North American handset customer. Revenue for products in our networking market was lower in the nine months ended November 2, 2013 compared to the prior year due primarily to a weaker market overall and its effect on our networking customers.

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

We currently expect overall net revenue for the three months ending February 1, 2014 to be in the range of \$880 million to \$920 million due to seasonal decreases in storage and non-mobile connectivity, offset by the continued ramp up of new mobile programs.

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 and nine months ended November 2, 2013. Combined revenue from these two customers was 33% and 36% of total net revenue for the three and nine months ended November 2, 2013, respectively. No distributors accounted for more than 10% of our net revenue for the three and nine months ended November 2, 2013. We had one end customer who represented greater than 10% of our total net revenue for the three months ended October 27, 2012. We had two end customers who each represented greater than 10% of our total net revenue for the nine months ended October 27, 2012 and combined revenue from these two customers was 34% of total net revenue for the nine months ended October 27, 2012. In addition, we had one distributor who accounted for more than 10% of our net revenue for the three and nine months ended October 27, 2012. We expect to continue to experience similar customer concentration in future periods.



**Table of Contents**

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 96% and 95% of our net revenue for the three and nine months ended November 2, 2013, respectively, compared to 92% and 90% of our net revenue for the three and nine months ended October 27, 2012, respectively. 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.

*Cost of Goods Sold*

	Three Months Ended			Nine Months Ended		
	November 2, 2013	October 27, 2012	% Change	November 2, 2013	October 27, 2012	% Change
	(in thousands, except percentage)					
Cost of goods sold	\$ 464,981	\$ 374,503	24.2%	\$ 1,186,478	\$ 1,122,664	5.7%
% of net revenue	49.9%	48.0%		48.0%	46.9%	

Cost of goods sold as a percentage of net revenue was higher for the three and nine months ended November 2, 2013 compared to the three and nine months ended October 27, 2012. Although we continued to benefit from lower commodity costs driven by our ongoing effort to replace the use of gold in our products with copper, manufacturing costs were higher in the three and nine months ended November 2, 2013 due to increased royalty expense and the ramp up of new product designs in consumer-oriented products. 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 February 1, 2014 to be slightly higher compared to the three months ended November 2, 2013.

*Share-Based Compensation Expense*

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
	(in thousands)			
Cost of goods sold	\$ 2,531	\$ 1,944	\$ 6,266	\$ 5,842
Research and development	30,084	22,565	82,345	62,152
Selling and marketing	3,738	3,101	10,778	9,595
General and administrative	6,848	2,764	18,416	13,205
	\$ 43,201	\$ 30,374	\$ 117,805	\$ 90,794

Share-based compensation expense increased by \$12.8 million and \$27.0 million for the three and nine months ended November 2, 2013, respectively, compared to the three and nine months ended October 27, 2012. These increases were primarily due to increased headcount in fiscal 2014, combined with higher expense related to the employee stock purchase plan. The offering price of the employee stock purchase plan was reset in June 2012 and also in December 2012 due to the decline in our stock price. In addition, equity awards granted in fiscal 2014 contained shorter vesting periods, which accelerated the share-based compensation expense.

*Research and Development*

	Three Months Ended			Nine Months Ended		
	November 2, 2013	October 27, 2012	% Change	November 2, 2013	October 27, 2012	% Change

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

(in thousands, except percentage)

Research and development	\$ 296,291	\$ 263,615	12.4%	\$ 867,985	\$ 783,760	10.7%
% of net revenue	31.8%	33.8%		35.1%	32.7%	

Research and development expense increased by \$32.7 million for the three months ended November 2, 2013 compared to the three months ended October 27, 2012. This increase was primarily attributable to higher personnel-related costs as a result of increased headcount to support new designs and higher average employee compensation, as well as higher computer-aided design tools and depreciation costs as we continue to invest in the development of innovative solutions. In addition, we incurred restructuring and other exit-related costs of \$2.9 million, primarily associated with the closure of two sites in the three months ended November 2, 2013.

**Table of Contents**

Research and development expense increased by \$84.2 million for the nine months ended November 2, 2013 compared to the nine months ended October 27, 2012. This increase was primarily attributable to increased headcount and higher average employee compensation, as well as higher computer-aided design tools and depreciation cost.

*Selling and Marketing*

	Three Months Ended		% Change	Nine Months Ended		% Change
	November 2, 2013	October 27, 2012		November 2, 2013	October 27, 2012	
	(in thousands, except percentage)					
Selling and marketing	\$ 37,496	\$ 38,398	(2.3)%	\$ 116,033	\$ 119,498	(2.9)%
% of net revenue	4.0%	4.9%		4.7%	5.0%	

Selling and marketing expense decreased by \$0.9 million and \$3.5 million for the three and nine months ended November 2, 2013, respectively, compared to the three and nine months ended October 27, 2012. These decreases were attributable to lower expenses for marketing communication activities as a result of our efforts to control discretionary spending. Also included in selling and marketing expense for the three months ended November 2, 2013 were restructuring and other exit-related costs of \$0.8 million.

*General and Administrative*

	Three Months Ended		% Change	Nine Months Ended		% Change
	November 2, 2013	October 27, 2012		November 2, 2013	October 27, 2012	
	(in thousands, except percentage)					
General and administrative	\$ 26,589	\$ 24,514	8.5%	\$ 80,104	\$ 75,937	5.5%
% of net revenue	2.9%	3.1%		3.2%	3.2%	

General and administrative expense increased by \$2.1 million for the three months ended November 2, 2013 compared to the three months ended October 27, 2012. This increase was due primarily to higher share-based compensation, which was partially offset by lower legal expenses for ongoing litigation matters. Also included in general and administrative expense for the three months ended November 2, 2013 were restructuring and other exit-related costs of \$0.5 million.

General and administrative expense increased by \$4.2 million for the nine months ended November 2, 2013 compared to the nine months ended October 27, 2012. This increase was due primarily to higher share-based compensation, which was partially offset by lower discretionary expenses as a result of our efforts to control costs.

*Amortization and Write-Off of Acquired Intangible Assets*

	Three Months Ended		% Change	Nine Months Ended		% Change
	November 2, 2013	October 27, 2012		November 2, 2013	October 27, 2012	
	(in thousands, except percentage)					
Amortization and write-off of acquired intangible assets	\$ 10,645	\$ 13,054	(18.5)%	\$ 31,969	\$ 40,432	(20.9)%
% of net revenue	1.2%	1.7%		1.3%	1.7%	

Amortization and write-off of acquired intangible assets decreased by \$2.4 million and \$8.5 million for the three and nine months ended November 2, 2013, respectively, compared to the three and nine months ended October 27, 2012. These decreases were primarily due to certain intangible assets that became fully amortized. In addition, the nine months ended October 27, 2012 included a \$0.8 million write-off of in-process research and development related to an abandoned project.

**Table of Contents***Restructuring*

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
	(in thousands)			
Research and development	\$ 2,886	\$ 2	\$ 2,886	\$ 46
Selling and marketing	795	(3)	795	(3)
General and administrative	527	130	933	1,060
	\$ 4,208	\$ 129	\$ 4,614	\$ 1,103

We recorded a \$4.2 million charge primarily related to the closure of two sites in the three months ended November 2, 2013. This amount included \$2.8 million of severance costs, \$1.3 million for other exit-related costs in connection with vacating three facilities and \$0.1 million for the write off of equipment. All activities related to the closure of the two sites were substantially completed by the end of the quarter.

During the nine months ended November 2, 2013, we also continued to make payments and incur on-going operating expenses related to vacated facilities under previous restructure actions.

*Interest and Other Income, Net*

	Three Months Ended		% Change	Nine Months Ended		% Change
	November 2, 2013	October 27, 2012		November 2, 2013	October 27, 2012	
	(in thousands, except percentage)					
Interest and other income, net	\$ 1,536	\$ 2,387	(35.7)%	\$ 12,949	\$ 9,308	39.1%
% of net revenue	0.2%	0.3%		0.5%	0.4%	

Interest and other income, net, decreased for the three months ended November 2, 2013 compared to the three months ended October 27, 2012 primarily due to lower realized gains on investments and lower interest income from a lower rate of return. This was further reduced by the impact of the weakening of the U.S. dollar on our foreign currency denominated tax liabilities.

Interest and other income, net, increased for the nine months ended November 2, 2013 compared to the nine months ended October 27, 2012 primarily due to the impact of the strengthening of the U.S. dollar on our foreign currency denominated tax liabilities. This was partially offset by lower interest income from lower average cash and investment balances, lower realized investment gains, and higher imputed interest expense related to technology license obligations during the nine months ended November 2, 2013. We also had a \$1.0 million write down of an equity investment during the nine months ended November 2, 2013.

*Provision (Benefit) for Income Taxes*

	Three Months Ended		% Change	Nine Months Ended		% Change
	November 2, 2013	October 27, 2012		November 2, 2013	October 27, 2012	
	(in thousands, except percentage)					
Provision (benefit) for income taxes	\$ (6,396)	\$ 368	(1,838.0)%	\$ (15,160)	\$ 3,920	(486.7)%
% of net revenue	(0.7)%	0.0%		(0.6)%	0.2%	

We had an income tax benefit in the three and nine months ended November 2, 2013, and our effective tax benefit was 6.6% and 7.5%, respectively. The income tax benefit for the three months ended November 2, 2013 included the current income tax liability of \$4.3 million, which was offset by a net reduction in unrecognized tax benefits of \$7.3 million, a \$2.5 million tax benefit due to return-to-provision adjustments upon the filing of tax returns and a \$0.9 million tax benefit from an increase in the deferred tax asset of a non-U.S. entity due to a change in its statutory tax rate. The net reduction in unrecognized tax benefits arose from the expiration of the statute of limitations, less an

increase in current unrecognized tax benefit estimates.

The income tax benefit for the nine months ended November 2, 2013 included the current income tax liability of \$11.3 million plus \$0.7 million in settlements of audits in non-U.S. jurisdictions, which were offset by a net reduction in unrecognized tax benefits of \$23.8 million, a \$2.5 million tax benefit due to return-to-provision adjustments upon filing of tax returns in three months ended November 2, 2013 and a \$0.9 million tax benefit from an increase in the deferred tax asset of a non-U.S. entity due to a change in its statutory tax rate in the three months ended November 2, 2013. The net reduction in unrecognized tax benefits primarily arose from the expiration of statute of limitations in non-U.S. jurisdictions and from the settlement of two audits in non-U.S. jurisdictions (one for \$3.5 million and the other for \$4.1 million), less an increase in current unrecognized tax estimates.

## **Table of Contents**

For the three and nine months ended October 27, 2012, our effective tax rate was 0.5% and 1.5%, respectively. The income tax provision for the three and nine months ended October 27, 2012 included the current income tax liability of \$5.9 million and \$14.5 million, respectively, which were primarily offset by net reductions in unrecognized tax benefits of \$5.5 million in the three months ended October 27, 2012 and \$11.5 million in the nine months ended October 27, 2012. These net reductions in unrecognized tax benefits primarily arose from the expiration of statute of limitations and from the settlement of 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 \$20 million from the lapse of the statutes of limitation in various jurisdictions during the next 12 months.

We operate under tax holidays in certain countries, which may be extended if certain additional requirements are satisfied. The tax holidays are conditional upon meeting certain employment and investment thresholds. The impact of these tax holidays decreased foreign taxes by \$14.9 million for the nine months ended November 2, 2013. The benefit of the tax holidays on net income per share was less than \$0.01 per share for the nine months ended November 2, 2013. A new corporate tax rate for Israel was officially published on August 5, 2013. The new rate of 26.5% is applicable beginning January 1, 2014 and includes corporations that are eligible for a beneficial tax regime.

## **Liquidity and Capital Resources**

Our principal source of liquidity as of November 2, 2013 consisted of approximately \$1.8 billion of cash, cash equivalents and short-term investments. 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 damages of up to \$322 million, post-judgment interest, attorneys fees, and an injunction and/or ongoing royalties. Due to the finding of willfulness during post trial proceedings, the judge could enhance the damages by an amount up to triple the damages awarded by the jury at trial. We intend to appeal the final judgment and we would seek to stay any award of damages 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.

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 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 \$347.6 million for the nine months ended November 2, 2013. The cash inflows from operations for the nine months ended November 2, 2013 were due to \$450.5 million of net income adjusted for non-cash items, partially offset by a negative effect from changes in working capital of \$102.9 million. The cash outflow from working capital for the nine months ended November 2, 2013 was primarily driven by an increase in accounts receivable from higher revenue levels and higher inventories due to the ramp up of new products. This negative impact on working capital was partially offset by an increase in accounts payable primarily due to higher levels of production during the third quarter of fiscal 2014.

Net cash provided by operating activities was \$524.4 million for the nine months ended October 27, 2012. The cash inflows from operations for the nine months ended October 27, 2012 were primarily due to \$458.8 million of net income adjusted for non-cash items and a positive effect from changes in working capital of \$65.6 million.



---

**Table of Contents*****Net Cash Provided by Investing Activities***

Net cash provided in investing activities was \$82.1 million for the nine months ended November 2, 2013 compared to net cash provided by investing activities of \$45.9 million for the nine months ended October 27, 2012. For the nine months ended November 2, 2013, net cash provided in investing activities was primarily generated from the sales and maturities of available-for-sale securities of \$845.5 million less purchases of available-for-sale securities of \$691.7 million. In addition, we paid \$53.3 million for the purchase of property and equipment and \$14.0 million for the purchase of technology licenses.

Net cash provided by investing activities for the nine months ended October 27, 2012 was generated from the sales and maturities of available-for-sale securities of \$1.3 billion less purchases of available-for-sale securities of \$1.2 billion. In addition, we paid \$49.1 million for the purchase of property and equipment and \$10.7 million for the purchase of technology licenses.

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

Net cash used in financing activities was \$385.2 million for the nine months ended November 2, 2013 compared to net cash used in financing activities of \$687.0 million for the nine months ended October 27, 2012. For the nine months ended November 2, 2013, net cash used in financing activities was primarily attributable to repurchases under our share repurchase program. Adjusted for the change in the current quarter and prior year for repurchases made within the final three days of a quarter that were accrued but not yet paid due to the standard three-day settlement period, we paid \$376.3 million to repurchase shares during the nine months ended November 2, 2013. We also made payments of our quarterly dividends of \$89.6 million. The cash outflow was partially offset by net proceeds of \$86.9 million from the issuance of our common shares under our share-based plans less the minimum tax withholding on behalf of employees for net share settlements.

Net cash used in financing activities for the nine months ended October 27, 2012 was primarily attributable to repurchases under our share repurchase program of 57.3 million of our common shares in the open market for \$676.5 million. The cash outflow was partially offset by net proceeds of \$56.4 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***

We plan to appeal the final judgment issued by the District Court in the CMU litigation, regardless of the dollar amount of the final judgment. We anticipate that we will need a surety bond in connection with our appeal of the judgment to the U.S. Court of Appeals for the Federal Circuit in Washington D.C., or possibly sooner while rulings on the remaining post-trial motions are pending. During October 2013, we entered into indemnity agreements with a consortium of insurers that would provide financial assurance that each of the insurers will be indemnified by us should a loss occur under a surety bond. We expect that under a surety bond, the surety companies would agree to guarantee to the District Court in Pittsburgh our payment of a specific amount, to be determined. Under a surety bond, cash, cash equivalents, and short term investments may need to be posted as collateral and classified as restricted cash in future filings. As of November 2, 2013 and as of the date of this filing, no surety bond has been issued. Therefore, these indemnity agreements have had no impact to our Condensed Consolidated Balance Sheets as of November 2, 2013.

***Contractual Obligations***

We presented our contractual obligations at February 2, 2013 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 August 3, 2013, 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 November 2, 2013. 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 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.





---

**Table of Contents**

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 November 2, 2013, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$14.3 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 November 2, 2013, our investment portfolio included \$19.2 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 November 2, 2013, the fair value of auction rate securities in our investment portfolio was \$3.0 million less than par value and the fair value was recorded in long-term investments.

Based on our balance of approximately \$1.8 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 \$15.1 million at November 2, 2013, 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 operation in Israel represents 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 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.

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. 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 3.9%. 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.

## **Table of Contents**

### **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 Interim 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 ( SEC ) and that such information is accumulated and communicated to management, including the Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that, as of November 2, 2013, 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 November 2, 2013 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 SEC, including our Annual Report on Form 10-K for the year ended February 2, 2013 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;

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;

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

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 November 2, 2013, 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. 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, the semiconductor providers competing in the mobile and wireless communication markets have recently experienced consolidation. For example, Broadcom Corporation acquired NetLogic Microsystems in February 2011 and Texas Instruments Incorporated acquired National Semiconductor in September 2011. Consolidation among our competitors could lead to a changing competitive landscape, capabilities and market share, which could harm our results of operations.

***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 flash drives 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 are currently involved in a patent litigation action involving Carnegie Mellon University, and, if we do not prevail on our post trial motions or our appeal of the verdict, we could be liable for substantial damages.***

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

On March 6, 2009, Carnegie Mellon University ( CMU ) filed a complaint in the U.S. District Court for the Western District of Pennsylvania naming MSI 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 HDD products

## Table of Contents

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. Due to the finding of willfulness during post trial proceedings, the judge could enhance the damages by an amount up to triple the damages awarded by the jury at trial. In addition, CMU has disclosed in its post trial motions that it is seeking pre-judgment interest up to \$322 million, post-judgment interest, 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 the motion for a forthcoming 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. CMU requested expedited briefing but the District Court has not set a briefing schedule for CMU's latest motions, and has yet to rule on the Company's laches defense as well as CMU's injunction motion. 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. Should the judge in the CMU case grant an injunction or if we are required to pay most or all of the damages awarded by the jury after all appeals have been exhausted, this could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We plan to appeal the final judgment issued by the District Court in the CMU litigation, regardless of the dollar amount of the final judgment. We anticipate that we will need a surety bond in connection with our appeal of the judgment to the U.S. Court of Appeals for the Federal Circuit in Washington D.C., or possibly sooner while rulings on the remaining post-trial motions are pending. During October 2013, we entered into indemnity agreements with a consortium of insurers that would provide financial assurance that each of the insurers will be indemnified by us should a loss occur under a surety bond. We expect that under a surety bond, the surety companies would agree to guarantee to the District Court in Pittsburgh our payment of a specific amount, to be determined. Under a surety bond, cash, cash equivalents, and short term investments may need to be posted as collateral and classified as restricted cash in future filings. As of November 2, 2013 and as of the date of this filing, no surety bond has been issued. Therefore, these indemnity agreements have had no impact to our Condensed Consolidated Balance Sheets as of November 2, 2013.

***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, a jury has awarded past damages in the amount of \$1.17 billion in our litigation with CMU. 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:

- 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;



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

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.

---

## **Table of Contents**

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 result 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 36% and 34% of our net revenue for the nine months ended November 2, 2013 and October 27, 2012, 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.***

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 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

---

## Table of Contents

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.

***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

## **Table of Contents**

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 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 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

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

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.

## **Table of Contents**

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.

***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.

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.

***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.



---

## **Table of Contents**

***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 \$61.1 million of acquired intangible assets, net on our balance sheet as of November 2, 2013. 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 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.

During the year ended February 2, 2013, we experienced a continued decline in our stock price which caused a substantial reduction in the reporting unit's excess fair value over its net book value. Although we determined the fair value of our company was in excess of our carrying value, and therefore there was no impairment of goodwill as of February 2, 2013, if at some point our stock price were to decline and erodes our total market capitalization, we may be required to record an impairment charge in the future that could be material to our operating 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.

***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.***

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

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 nine months ended November 2, 2013, 90% of our net revenue in fiscal 2013 and 88% of our net revenue in fiscal 2012.

## **Table of Contents**

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 customer's 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. 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.*

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

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 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.

---

**Table of Contents**

***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 EDB initially granted a 10 year Pioneer Status in July 1999 to our subsidiary in Singapore if the Company meets several requirements as to investments, headcount and activities. In June 2006, the EDB agreed to extend the Pioneer status to 15 years to June 2014 rather than 10 years. We have begun early discussions with the EDB regarding incentives after June 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 holiday 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 holiday benefits 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.

***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.



---

## **Table of Contents**

### ***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.

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.





## **Table of Contents**

***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.

***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 on-going 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, our results of operations, cash balances and future cash requirements, financial condition, statutory requirements of Bermuda law, on-going 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 on-going 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.



**Table of Contents**

***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 Interim 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.

***Three of our officers own a large percentage of our voting stock and are related by blood or marriage. These factors may allow the officers and directors as a group or the three related employees to influence the election of directors and the approval or disapproval of significant corporate actions.***

Dr. Sehat Sutardja, our Chairman and Chief Executive Officer, and Weili Dai, who serves as our President, are husband and wife, and Dr. Sehat Sutardja and Dr. Pantas Sutardja, our Vice President, Chief Technology Officer and Chief Research and Development Officer, are brothers. Together, these three individuals held approximately 21% of our outstanding common shares as of November 2, 2013. 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. Derivative actions may be available in certain circumstances, which would permit a shareholder to bring an action in our name if the directors or officers are alleged to be acting beyond our corporate power, committing illegal acts or violating our Memorandum of Association or Third Amended and Restated Bye-Laws ( Bye-Laws ). Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against the minority shareholders or, for example, where an act requiring the approval of a greater percentage of the company's shareholders than those who actually approved it.

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

## **Table of Contents**

### ***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.***

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

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

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

**Table of Contents**

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

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

authorizing the issuance of preferred stock without shareholder approval; 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 November 2, 2013.

**Issuer Purchases of Equity Securities**

The following table presents details of our repurchases during the three months ended November 2, 2013 (in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Approximated Dollar Value of	
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Shares that May Yet Be Purchased Under the Plans or Programs (1)
August 4 - August 31, 2013	1,825	\$ 11.85	1,825	\$ 308,133
September 1 - September 28, 2013	2,125	\$ 11.94	2,125	\$ 282,762
September 29 - November 2, 2013	2,148	\$ 11.33	2,148	\$ 258,419
Total	6,098	\$ 11.70	6,098	\$ 258,419

- (1) 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. During fiscal 2012, our board of directors authorized an additional \$1.5 billion to be used to repurchase our common shares under the share repurchase program. During fiscal 2013, our board of directors authorized an additional \$1 billion to be used to repurchase our common shares under the share repurchase program. This increases the total available under the share repurchase program to \$3.0 billion. We intend to effect the share repurchase program in accordance with the conditions of Rule 10b-18 under the Exchange Act. 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. We may make repurchases in open market or privately negotiated transactions in order to effect our repurchases.

**Item 6. Exhibits**

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

10.1#	Amended and Restated 1995 Stock Option Plan, incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K as filed on September 26, 2013
10.2#	Form of Stock Option Agreement and Notice of Grant of Stock Options and Option Agreement for use with the Amended and Restated 1995 Stock Option Plan (for options granted on or after September 20, 2013), incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K as filed on September 26, 2013
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

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

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.



**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: December 6, 2013

By: /s/ Brad D. Feller

**Brad D. Feller**

*Interim Chief Financial Officer*

**(Principal Financial and Accounting Officer)**

**Table of Contents**

**EXHIBIT INDEX**

10.1#	Amended and Restated 1995 Stock Option Plan, incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K as filed on September 26, 2013
10.2#	Form of Stock Option Agreement and Notice of Grant of Stock Options and Option Agreement for use with the Amended and Restated 1995 Stock Option Plan (for options granted on or after September 20, 2013), incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K as filed on September 26, 2013
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.