

MARVELL TECHNOLOGY GROUP LTD  
Form 10-Q  
September 04, 2012  
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**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 July 28, 2012

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)

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**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 August 24, 2012 was 557.8 million shares.

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

	<b>July 28, 2012</b>	<b>January 28, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 906,108	\$ 784,902
Short-term investments	1,228,085	1,461,596
Accounts receivable, net	390,772	407,263
Inventories	345,712	354,119
Prepaid expenses and other current assets	48,269	60,412
Deferred income taxes	10,635	10,669
<b>Total current assets</b>	<b>2,929,581</b>	<b>3,078,961</b>
Property and equipment, net	381,154	383,801
Long-term investments	18,103	23,215
Goodwill	2,031,991	2,031,991
Acquired intangible assets, net	114,127	141,505
Other non-current assets	109,596	108,146
<b>Total assets</b>	<b>\$ 5,584,552</b>	<b>\$ 5,767,619</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 335,100	\$ 304,695
Accrued liabilities	110,944	87,655
Accrued employee compensation	112,564	137,245
Deferred income	67,840	59,959
<b>Total current liabilities</b>	<b>626,448</b>	<b>589,554</b>
Non-current income taxes payable	125,901	131,579
Other long-term liabilities	29,089	32,468
<b>Total liabilities</b>	<b>781,438</b>	<b>753,601</b>
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common shares, \$0.002 par value	1,115	1,167
Additional paid-in capital	3,317,578	3,683,112
Accumulated other comprehensive income	1,378	776
Retained earnings	1,483,043	1,328,963
<b>Total shareholders' equity</b>	<b>4,803,114</b>	<b>5,014,018</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,584,552</b>	<b>\$ 5,767,619</b>

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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		Six Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Net revenue	\$ 816,104	\$ 897,520	\$ 1,612,455	\$ 1,699,922
Operating costs and expenses:				
Cost of goods sold	381,839	378,117	748,161	712,592
Research and development	264,175	249,604	520,145	492,141
Selling and marketing	41,034	40,390	81,100	78,542
General and administrative	25,718	23,631	51,423	48,415
Amortization and write-off of acquired intangible assets	13,023	11,138	27,378	25,479
Total operating costs and expenses	725,789	702,880	1,428,207	1,357,169
Operating income	90,315	194,640	184,248	342,753
Interest and other income, net	5,864	2,064	6,921	1,846
Income before income taxes	96,179	196,704	191,169	344,599
Provision for income taxes	3,105	4,312	3,552	5,346
Net income	\$ 93,074	\$ 192,392	\$ 187,617	\$ 339,253
Net income per share:				
Basic	\$ 0.17	\$ 0.32	\$ 0.33	\$ 0.54
Diluted	\$ 0.16	\$ 0.31	\$ 0.32	\$ 0.53
Weighted average shares:				
Basic	562,362	608,511	571,193	623,728
Diluted	570,325	623,132	582,532	640,136
Cash dividend declared per share:	\$ 0.06	\$	\$ 0.06	\$

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 28, 2012</b>	<b>July 30, 2011</b>	<b>July 28, 2012</b>	<b>July 30, 2011</b>
Net income	\$ 93,074	\$ 192,392	\$ 187,617	\$ 339,253
Other comprehensive (loss) income, net of tax:				
Available-for-sale securities:				
Change in unrealized gain on marketable securities	795	1,215	1,644	3,157
Less: Reclassification adjustments for net realized gains on marketable securities included in net income	(211)	(823)	(771)	(1,161)
Change in unrealized (loss) gain on auction rate securities	(112)	100	(112)	44
Derivative financial instruments:				
Change in unrealized (loss) gain on cash flow hedges	(2,160)	(164)	(2,176)	4,488
Less: Reclassification adjustments for net realized loss (gain) on cash flow hedges included in net income	749	(1,041)	2,017	(1,753)
Other:		(115)		(115)
Other comprehensive (loss) income, net	(939)	(828)	602	4,660
Comprehensive income	\$ 92,135	\$ 191,564	\$ 188,219	\$ 343,913

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<b>Six Months Ended</b>	
	<b>July 28, 2012</b>	<b>July 30, 2011</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 187,617	\$ 339,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,484	46,474
Stock-based compensation	60,420	57,835
Amortization and write-off of acquired intangible assets	27,378	25,479
Other expense, net	5,175	7,145
Excess tax benefits from stock-based compensation	(44)	(14)
Changes in assets and liabilities:		
Accounts receivable	16,491	53,649
Inventories	8,033	(76,004)
Prepaid expenses and other assets	15,635	17,438
Accounts payable	27,537	6,999
Accrued liabilities and other	13,939	(91)
Accrued employee compensation	(24,681)	(29,267)
Deferred income	7,881	(8,334)
<b>Net cash provided by operating activities</b>	<b>387,865</b>	<b>440,562</b>
<b>Cash flows from investing activities:</b>		
Purchases of marketable securities	(646,907)	(1,139,884)
Purchases of strategic investments	(5,750)	(2,253)
Sales and maturities of investments	881,309	681,069
Cash paid for acquisition, net		(16,760)
Purchases of technology licenses	(6,452)	(6,615)
Purchases of property and equipment	(29,734)	(42,245)
<b>Net cash provided by (used in) investing activities</b>	<b>192,466</b>	<b>(526,688)</b>
<b>Cash flows from financing activities:</b>		
Repurchase of common stock	(473,484)	(939,241)
Proceeds from employee stock plans	57,329	46,623
Minimum tax withholding paid on behalf of employees for net share settlement	(9,477)	(4,868)
Dividend payments to shareholders	(33,537)	
Principal payments on capital lease obligations		(511)
Excess tax benefits from stock-based compensation	44	14
<b>Net cash used in financing activities</b>	<b>(459,125)</b>	<b>(897,983)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>121,206</b>	<b>(984,109)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>784,902</b>	<b>1,847,074</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 906,108</b>	<b>\$ 862,965</b>

See accompanying notes to unaudited condensed consolidated financial statements.





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**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 and software that incorporate digital computing technologies designed and configured to provide an optimal 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, handheld cellular, 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 2013 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 2013 has a 53-week period and fiscal 2012 had a 52-week period.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments consisting of normal and recurring entries considered necessary for a fair statement of the results for the interim periods have been included in the Company's balance sheet as of July 28, 2012, the results of its operations for the three and six months ended July 28, 2012 and July 30, 2011, and its cash flows for the six months ended July 28, 2012 and July 30, 2011. The January 28, 2012 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 January 28, 2012 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 January 28, 2012 as filed on March 27, 2012 with the Securities and Exchange Commission. The results of operations for the three and six months ended July 28, 2012 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, 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. When carrying values of certain assets and liabilities are not readily available from other sources, their carrying values are estimated based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. 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 United States dollar.

**Note 2. Recent Accounting Pronouncements*****Accounting Pronouncements Recently Adopted***

The Company adopted the new accounting standard that provides additional guidance on fair value measurements and related disclosures at the beginning of fiscal 2013. This guidance clarifies the application of existing guidance on fair value measurement for non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. The adoption of this guidance had no impact on the Company's financial statements.

The Company also adopted the new accounting standard that permits an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements at the beginning of fiscal 2013. This amended guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. As a result, the Company has separately presented the Statements of Comprehensive Income as part of its unaudited condensed consolidated financial statements and has elected to defer separate disclosure of reclassifications adjustments out of accumulated other comprehensive income.

The Company also adopted the new accounting standard that amends the previous guidance regarding the testing of goodwill for impairment at the beginning of fiscal 2013. This amended guidance allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer is required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The adoption of this guidance had no impact on the Company's financial statements.

***Accounting Pronouncements Not Yet Effective***

In July 2012, the Financial Accounting Standards Board issued an amendment to its guidance regarding the testing of indefinite-lived intangible assets for impairment. 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. This amended guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance is not expected to have an impact on the Company's financial statements.

**Note 3. Investments**

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

		As of July 28, 2012		
	Amortized	Gross	Gross	Estimated
	Cost	Unrealized	Unrealized	Fair Value
		Gains	Losses	
<b>Short-term investments:</b>				
Available-for-sale:				

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Corporate debt securities	\$ 612,749	\$ 3,775	\$ (55)	\$ 616,469
Foreign government	2,026	10		2,036
U.S. federal and state debt securities	608,735	864	(19)	609,580
Total short-term investments	\$ 1,223,510	\$ 4,649	\$ (74)	\$ 1,228,085
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	\$ 19,500	\$	\$ (1,397)	\$ 18,103
Total long-term investments	\$ 19,500	\$	\$ (1,397)	\$ 18,103
Total investments	\$ 1,243,010	\$ 4,649	\$ (1,471)	\$ 1,246,188

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

	Amortized Cost	As of January 28, 2012 Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Short-term investments:</b>				
Available-for-sale:				
Corporate debt securities	\$ 685,563	\$ 3,081	\$ (799)	\$ 687,845
Foreign government	2,033	3		2,036
U.S. federal and state debt securities	770,298	1,437	(20)	\$ 771,715
Total short-term investments	\$ 1,457,894	\$ 4,521	\$ (819)	\$ 1,461,596
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	\$ 24,500	\$	\$ (1,285)	\$ 23,215
Total long-term investments	\$ 24,500	\$	\$ (1,285)	\$ 23,215
<b>Total investments</b>	<b>\$ 1,482,394</b>	<b>\$ 4,521</b>	<b>\$ (2,104)</b>	<b>\$ 1,484,811</b>

As of July 28, 2012, the Company's investment portfolio included auction rate securities with an aggregate par value of \$19.5 million. 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 July 28, 2012 was \$1.4 million less than the par value and was recorded in long-term investments. Based on the Company's balance of approximately \$2.1 billion in cash, cash equivalents and short-term investments, and the fact that the Company continues to generate positive cash flow from operations on a quarterly basis, the Company does not anticipate having to sell these securities below par value and does not have the intent to sell these auction rate securities until recovery. Since the Company considers the impairment to be temporary, the Company recorded the unrealized loss to accumulated other comprehensive income, a component of shareholders' equity.

The contractual maturities of available-for-sale securities at July 28, 2012 and January 28, 2012 are presented in the following table (in thousands):

	July 28, 2012		January 28, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 565,566	\$ 566,593	\$ 641,433	\$ 642,317
Due between one and five years	655,445	658,976	816,461	819,279
Due over five years	21,999	20,619	24,500	23,215
	\$ 1,243,010	\$ 1,246,188	\$ 1,482,394	\$ 1,484,811

For individual securities that have been in a continuous unrealized loss position, the fair value and gross unrealized loss at July 28, 2012 and January 28, 2012 for these securities aggregated by investment category and length of time in an unrealized position are presented in the following tables (in thousands):

July 28, 2012

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	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt securities	\$ 36,290	\$ (32)	\$ 4,852	\$ (23)	\$ 41,142	\$ (55)
U.S. federal and state debt securities	91,791	(19)			91,791	(19)
Auction rate securities			18,103	(1,397)	18,103	(1,397)
Total securities	\$ 128,081	\$ (51)	\$ 22,955	\$ (1,420)	\$ 151,036	\$ (1,471)

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	Less than 12 months		January 28, 2012 12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt securities	\$ 146,963	\$ (799)	\$	\$	\$ 146,963	\$ (799)
U.S. federal and state debt securities	107,603	(20)			107,603	(20)
Auction rate securities			23,215	(1,285)	23,215	(1,285)
Total securities	\$ 254,566	\$ (819)	\$ 23,215	\$ (1,285)	\$ 277,781	\$ (2,104)

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

	July 28, 2012	January 28, 2012
<b>Inventories:</b>		
Work-in-process	\$ 160,575	\$ 190,779
Finished goods	185,137	163,340
Inventories	\$ 345,712	\$ 354,119
	July 28, 2012	January 28, 2012
<b>Property and equipment, net:</b>		
Machinery and equipment	\$ 510,320	\$ 489,481
Buildings	144,596	144,596
Computer software	86,819	81,852
Land	69,246	69,246
Building improvements	42,200	42,083
Leasehold improvements	38,879	37,237
Furniture and fixtures	22,840	24,450
Construction in progress	10,409	9,846
	925,309	898,791
Less: Accumulated depreciation and amortization	(544,155)	(514,990)
Property and equipment, net	\$ 381,154	\$ 383,801
	July 28, 2012	January 28, 2012
<b>Other non-current assets:</b>		
Technology and other licenses	\$ 46,384	\$ 50,212
Deferred tax assets	30,966	31,064
Deposits	12,082	11,532
Investments in privately held companies	11,676	6,309
Deferred compensation	2,910	5,419
Other	5,578	3,610



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Other non-current assets	\$ 109,596	\$ 108,146
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	July 28, 2012	January 28, 2012
<b>Accrued liabilities:</b>		
Accrued rebates	\$ 49,632	\$ 24,420
Accrued royalties	13,160	16,896
Accrued legal expense	12,226	13,999
Technology license obligations	8,963	5,250
Customer advances for NRE services	4,284	2,541
Other	22,679	24,549
Accrued liabilities	\$ 110,944	\$ 87,655
<b>Other long-term liabilities:</b>		
Technology license obligations	\$ 9,471	\$ 11,255
Long-term accrued employee compensation	9,930	10,059
Other	9,688	11,154
Other long-term liabilities	\$ 29,089	\$ 32,468
<b>Accumulated other comprehensive income:</b>		
Unrealized gain on marketable securities	\$ 4,575	\$ 3,702
Unrealized loss on auction rate securities	(1,397)	(1,285)
Unrealized loss on cash flow hedges	(1,800)	(1,641)
Accumulated other comprehensive income	\$ 1,378	\$ 776

**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 July 28, 2012	July 30, 2011	Six Months Ended July 28, 2012	July 30, 2011
<b>Numerator:</b>				
Net income	\$ 93,074	\$ 192,392	\$ 187,617	\$ 339,253
<b>Denominator:</b>				
Weighted average common shares outstanding	562,362	608,511	571,193	623,728
<b>Effect of dilutive securities:</b>				
Common share-based awards	7,963	14,621	11,339	16,408

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Weighted average shares	diluted	570,325	623,132	582,532	640,136
Net income per share:					
Basic		\$ 0.17	\$ 0.32	\$ 0.33	\$ 0.54
Diluted		\$ 0.16	\$ 0.31	\$ 0.32	\$ 0.53

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	Three Months Ended		Six Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Anti-dilutive potential common shares:				
Weighted average shares outstanding from stock options	29,488	22,447	26,553	19,218
Weighted-average exercise price:	\$ 17.52	\$ 18.59	\$ 17.86	\$ 19.19

Anti-dilutive potential common shares for stock options are excluded from the calculation of diluted earnings per share for the periods reported above because their exercise price exceeded the average market price during the period. 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 July 28, 2012 and July 30, 2011 was lower than the required market condition. For the three and six months ended July 28, 2012, there were 3.1 million anti-dilutive shares from stock options that contain market conditions. For the corresponding three and six months ended July 30, 2011, there were 3.1 million and 1.6 million anti-dilutive shares, respectively, from stock options that contain market conditions. See Note 11 – Share-Based Compensation for additional details.

**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.

As of July 28, 2012 and January 28, 2012, the notional amounts of outstanding forward contracts were as follows (in thousands):

	Buy Contracts	
	July 28, 2012	January 28, 2012
Israeli shekel	\$ 48,440	\$ 42,637

*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

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a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

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

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

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

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

The Company's Level 1 assets include its institutional money-market funds that are classified as cash equivalents and marketable investments in U.S. federal and state debt securities, which are valued primarily using quoted market prices. The Company's Level 2 assets and liabilities include its marketable investments in corporate debt 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, foreign currency exchange contracts 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 July 28, 2012.

The tables below set forth, by level, the Company's financial assets that were accounted for at fair value as of July 28, 2012 and January 28, 2012. 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 July 28, 2012
<b>Items measured at fair value on a recurring basis:</b>				
<b>Assets</b>				
<b>Cash equivalents:</b>				
Money market funds	\$ 93,827	\$	\$	\$ 93,827
Corporate debt securities		30,243		30,243
Time deposits		214,706		214,706
<b>Short-term investments:</b>				
U.S. federal and state debt securities	609,580			609,580
Corporate debt securities		616,469		616,469
Foreign government		2,036		2,036
<b>Long-term investments:</b>				
Auction rate securities			18,103	18,103
<b>Other non-current assets:</b>				
Severance pay fund		1,713		1,713
<b>Total assets</b>	<b>\$ 703,407</b>	<b>\$ 865,167</b>	<b>\$ 18,103</b>	<b>\$ 1,586,677</b>
<b>Liabilities</b>				
<b>Accrued liabilities:</b>				
Forward contracts	\$	\$ 1,772	\$	\$ 1,772

**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 January 28, 2012
<b>Items measured at fair value on a recurring basis:</b>				
<b>Assets</b>				
<b>Cash equivalents:</b>				
Money market funds	\$ 64,247	\$	\$	\$ 64,247
Corporate debt securities		12,500		12,500
Time deposits		205,060		205,060
<b>Short-term investments:</b>				
U.S. federal and state debt securities	771,715			771,715
Corporate debt securities		687,845		687,845
Foreign government		2,036		2,036
<b>Long-term investments:</b>				
Auction rate securities			23,215	23,215
<b>Other non-current assets:</b>				
Severance pay fund		1,734		1,734
<b>Total assets</b>	<b>\$ 835,962</b>	<b>\$ 909,175</b>	<b>\$ 23,215</b>	<b>\$ 1,768,352</b>
<b>Liabilities</b>				
<b>Accrued liabilities:</b>				
Forward contracts	\$	\$ 1,520	\$	\$ 1,520

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

	Six Months Ended	
	July 28, 2012	July 30, 2011
Beginning balance	\$ 23,215	\$ 26,226
Sales and redemption	(5,000)	(200)
Unrealized (loss) gain included in accumulated other comprehensive income	(112)	44
Ending balance	\$ 18,103	\$ 26,070

**Note 7. Goodwill and Acquired Intangible Assets, Net (in thousands)****Goodwill**

There was no change in goodwill during the six months ended July 28, 2012.

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

	Range of Useful Lives	July 28, 2012			January 28, 2012		
		Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amount
Purchased technology	2.5 - 7 years	\$ 103,490	\$ (59,867)	\$ 43,623	\$ 103,490	\$ (50,906)	\$ 52,584
Core technology	6 - 8 years	178,000	(153,208)	24,792	178,000	(142,932)	35,068
Trade name	5 years	1,500	(374)	1,126	1,500	(232)	1,268
Customer contracts	5 - 7 years	89,900	(55,014)	34,886	89,900	(47,856)	42,044
In-process research and development	*	9,700		9,700	10,541		10,541
Total intangible assets, net		\$ 382,590	\$ (268,463)	\$ 114,127	\$ 383,431	\$ (241,926)	\$ 141,505

\* Upon completion of the project, 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 July 28, 2012, the future amortization expense excluding IPR&D for the next five fiscal years is as follows (in thousands):

Fiscal year	
Remainder of fiscal 2013	\$ 24,390
2014	36,254
2015	14,852
2016	12,088
2017	10,896
Thereafter	5,947
	\$ 104,427

**Note 8. Income Tax**

The income tax provision for the three and six months ended July 28, 2012 included the current income tax liability of \$5.9 million and \$8.6 million, respectively, which were primarily offset by net reductions in unrecognized tax benefits of \$3.4 million in the three months ended July 28, 2012 and \$6.0 million in the six months ended July 28, 2012. These net reductions in unrecognized tax benefits primarily arose from the expiration of statute of limitations and from the settlement of an audit in non-U.S. jurisdictions less increases in current unrecognized tax benefit estimates.

The income tax provision for the three and six months ended July 30, 2011 included the current income tax liability of \$4.9 million and \$8.3 million, respectively, which were partially offset by a net reduction in unrecognized tax benefits of \$1.0 million in the three months ended July 30, 2011 and \$3.4 million in the six months ended July 30, 2011 primarily due to the expiration of the statute of limitations in non-U.S. jurisdictions less increases in current unrecognized tax benefit estimates.



During the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could decrease due to a potential settlement with tax authorities and/or the expiration of applicable statutes of limitations. However, the amount cannot be reasonably estimated as the Company will have negotiations with various tax authorities throughout the year.

**Note 9. 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 July 28, 2012, these foundries had incurred approximately \$256.3 million of manufacturing costs and expenses related 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 customer's attorneys' fees and costs. The Company's indemnification obligations generally do not expire after termination or expiration of the agreement containing the indemnification obligation. In certain cases, there are limits on and exceptions to the Company's potential liability for indemnification. Although historically the Company has not made significant payments under these indemnification obligations, the Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements. The maximum potential amount of any future payments that the Company could be required to make under these indemnification obligations could be significant.

***Contingencies***

**Section 16(b) Litigation.** On October 9, 2007, a purported shareholder of the Company filed a complaint for violation of Section 16(b) of the Exchange Act, which prohibits short swing trading, against the Company's IPO underwriters. The complaint *Vanessa Simmonds v. The Goldman Sachs Group, et al.*, Case No. C07-1632 filed in District Court for the Western District of Washington, seeks the recovery of short swing profits. The Company is named as a nominal defendant only, and no recovery is sought from the Company. In March 2009, the district court granted a motion to dismiss filed by the underwriter defendants, which caused the case against the Company to be dismissed. The plaintiff appealed to the U.S. Court of Appeals for the Ninth Circuit, and in December 2010, the Ninth Circuit reversed the dismissal and remanded to the district court. On January 25, 2011, the Ninth Circuit entered an order staying the mandate pending the filing of petitions for writ of certiorari in the United States Supreme Court by the underwriter defendants. Both sides have filed petitions for writ of certiorari to the United States Supreme Court. The Supreme Court denied plaintiff's writ, but granted the underwriters' writ, which argued that the case should have been dismissed on statute of limitations grounds. On March 26, 2012, the U.S. Supreme Court issued its opinion in the case. The Court vacated and remanded the Ninth Circuit's decision and held that the two-year statute of limitations for actions under Section 16(b) is not automatically subject to equitable tolling pending the filing of the public disclosure statement required by Section 16(a) of the Act. On May 15, 2012, the Ninth Circuit entered an order remanding the cases of the non-moving issuer defendants (including the Company) to the District Court for proceedings consistent with the opinion of the U.S. Supreme Court and dismissing with prejudice the cases of the moving issuer defendants. On June 11, 2012, the plaintiff filed a Notice of Dismissal in the District Court, dismissing the action against the Company with prejudice as to the adequacy of the pre-suit demand letters in accordance with the Ninth Circuit's opinion and without prejudice as to all other issues.

**Jasmine Networks Litigation.** On September 12, 2001, Jasmine Networks, Inc. (Jasmine) filed a lawsuit in the Santa Clara County Superior Court alleging claims against Marvell Semiconductor, Inc. (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.

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. The Company is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

**Wage and Hour Class Action.** On October 18, 2006, Dan Holton (Holton), a former employee of MSI, filed a civil complaint in Santa Clara County Superior Court. Holton alleges that MSI misclassified him as an exempt employee. Holton claims that due to its misclassification MSI owes him unpaid wages for overtime, penalties for missed meal periods, and various other penalties under the California Labor Code, as well as interest. Holton also pursues a cause of action for unfair business practices under the California Business & Profession Code. Holton brought his complaint as a class action. On July 8, 2009, the court granted certification of the following class: All Individual Contributor Engineers who held the title of PCB Designer, Associate Engineer, Engineer, Staff Engineer and Senior Engineers, who at any time during the class period while holding these positions did not have a degree above a baccalaureate degree nor a degree above a baccalaureate degree in a field of science related to the work performed, and worked for MSI in California, at any time from October 19, 2002 through the present. MSI disputed all of plaintiff's class claims. On November 23, 2011, the parties executed a settlement agreement and plaintiffs filed their motion for preliminary

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approval of the settlement. The settlement was preliminarily approved by the Court on March 16, 2012. No class members objected to the settlement, and the Court approved the settlement at the final settlement approval hearing on July 6, 2012. The settlement amount, which was recorded in the Company's financial statements in fiscal 2012, was not material to the Company's results of operations.

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

*Carnegie Mellon Litigation.* On March 6, 2009, Carnegie Mellon University ( CMU ) filed a complaint in the United States District Court for the Western District of Pennsylvania naming MSI and the Company 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 purportedly relate to read-channel integrated circuit devices and the HDD products incorporating such devices. The complaint seeks unspecified damages and an injunction. On June 1, 2009, MSI and the Company filed their answers and MSI filed counterclaims to the complaint seeking declaratory judgments of non-infringement and invalidity as to both of the asserted patents. The claim construction hearing was held on April 12 and 13, 2010. On April 29, 2010, MSI and the Company filed their amended answers and counterclaims. The court issued a Markman ruling on October 1, 2010. MSI and the Company filed a motion for partial summary judgment of invalidity on December 22, 2010, which was denied on September 28, 2011. MSI and the Company filed a second motion for partial summary judgment of invalidity on November 2, 2011, which was denied on April 10, 2012. On April 20, 2012, MSI and the Company filed a motion for partial summary judgment of no infringement and no damages with respect to extraterritorial conduct, a summary judgment motion of no infringement and no damages with respect to licensed use and a summary judgment motion of non-infringement regarding Group II claims. A hearing on summary judgment motions was held on July 10 and 11, 2012. On August 24, 2012, the Court granted in part and denied in part the motion of no infringement and no damages with respect to extraterritorial conduct; granted in part and denied in part the motion of no infringement and no damages with respect to licensed use; and granted the motion of non-infringement regarding Group II claims. A jury trial is set for November 26, 2012. MSI and the Company strongly dispute their liability and the damages claimed by CMU. MSI and the Company believe that they do not infringe any valid and enforceable claims of the asserted CMU patents in suit and intend to litigate this action vigorously (including any potential appeal, as necessary). Based on the procedural posture and the nature of the litigation, the Company is currently unable to predict the outcome of this lawsuit.

*USEI Litigation.* On October 9, 2009, U.S. Ethernet Innovations, LLC ( USEI ) filed a complaint in the United States 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 (collectively, the USEI patents in suit ), which purportedly 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 court issued an order granting the Defendants' motion to transfer the action to 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. On October 21, 2011, the court conducted a claim construction hearing, and a ruling was issued on January 31, 2012. A supplemental claim construction hearing was held on May 3, 2012. MSI believes that it does not infringe any valid and enforceable claim of the USEI patents in suit, and intends to litigate this action vigorously. The Company is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

*Lake Cherokee Patent Litigation.* On June 30, 2010, Lake Cherokee Hard Drive Technologies, L.L.C. filed a complaint in the United States District Court for the Eastern District of Texas. The complaint names MSI and seven other defendants, and alleges infringement of U.S. Patent Nos. 5,844,738 and 5,978,162 (collectively, the Lake Cherokee patents in suit ). The Lake Cherokee patents in suit purportedly relate to read-channel integrated circuit devices, and allegedly, to certain unspecified HDD products incorporating such devices. The complaint seeks unspecified damages and a permanent injunction. MSI filed its answer and counterclaims to the complaint on September 13, 2010. Defendants filed a motion to transfer on April 1, 2011, which was denied on February 13, 2012. Lake Cherokee filed an amended complaint on April 21, 2011. MSI filed its answer and counterclaims to the amended complaint on May 9, 2011. A claim construction hearing was held on May 14, 2012, and a ruling was issued on August 6, 2012. Trial is set for August 5, 2013. MSI believes that it does not infringe any valid and enforceable claim of the Lake Cherokee patents in suit, and intends to litigate this action vigorously. The Company is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

*APT Patent Litigations.* On January 18, 2011, Advanced Processor Technologies, LLC ( APT ), a subsidiary of Acacia Research Corp., filed a complaint in the United States District Court for the Eastern District of Texas. The complaint names MSI and eight other defendants and alleges infringement of U.S. Patent Nos. 6,047,354 ( 354 patent ) and 5,796,978 ( 978 patent ). The asserted patents purportedly relate to microprocessor technologies. The complaint seeks unspecified damages and a permanent injunction. A first amended complaint was filed on January 26, 2011. The first amended complaint continues to assert the 354 patent against MSI, but appears to no longer assert the 978 patent against MSI. MSI filed its answer and counterclaims on April 15, 2011. A claim construction hearing is scheduled for January 29, 2013, and jury selection is set for July 1, 2013. On March 23, 2012, APT filed a separate complaint in the United States District Court for the Eastern District of Texas. The

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complaint alleges that MSI infringes U.S. Patent Nos. 6,092,172 and 6,629,207. The asserted patents purportedly relate to microprocessor technologies. The complaint seeks unspecified damages and a permanent injunction. MSI filed its answer and counterclaims on May 25, 2012. In both cases, ARM filed a motion to intervene on July 23, 2012 and a motion to transfer on July 27, 2012. MSI believes that it does not infringe any valid and enforceable claim of the APT patents in suit, and intends to litigate these actions vigorously. The Company is currently unable to predict the outcome of these lawsuits and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

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*MOSAID Litigation.* On March 16, 2011, MOSAID Technologies Inc. filed suit in the United States District for the Eastern District of Texas against MSI and 16 other companies. The complaint alleges that defendants' products, which operate in compliance with the IEEE 802.11a, 802.11b, 802.11g, and 802.11n 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. A claim construction hearing is scheduled for February 18, 2014 and jury selection is set for August 4, 2014. MSI believes that it does not infringe any valid and enforceable claim of the MOSAID patents in suit, and intends to litigate this action vigorously. The Company is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

*Azure Networks Litigation.* On March 22, 2011, Azure Networks, LLC and Tri-County Excelsior Foundation filed suit in 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 December 9, 2011, defendants filed a motion to dismiss or transfer venue to S.D.N.Y. or, alternatively, to N.D. Cal., which was denied on June 25, 2012. A claim construction hearing is scheduled for November 29, 2012 and trial is set for November 12, 2013. MSI believes that it does not infringe any valid and enforceable claim of the Azure Networks patents in suit, and intends to litigate this action vigorously. The Company is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

*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 three other defendants, in the United States District Court for the District of Delaware. The complaint asserts U.S. Patent No. 5,504,909, which purportedly 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 is scheduled for January 18, 2013 and trial is set for March 3, 2014. MSI believes that it does not infringe any valid and enforceable claim of the PMS patents in suit, and intends to litigate this action vigorously. The Company is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

*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 United States District Court for the District of Delaware. The complaint also named numerous other defendants. The complaint asserts U.S. Patent No. 5,030,853, purportedly relating to high speed logic and memory circuitry, against various products. The complaint seeks 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 July 18, 2012, HSM filed a second amended complaint against MSI, and MSI filed its answer and counterclaims on August 13, 2012. MSI believes that it does not infringe any valid and enforceable claim of the HSM/TPL patents in suit, and intends to litigate this action vigorously. The Company is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

*France Telecom Litigation.* On June 26, 2012, France Telecom S.A. (France Telecom) filed a complaint against MSI in the United States District Court for the Southern District of New York. The complaint asserts U.S. Patent No. 5,446,747 (the 747 patent) 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 United States District Court for the Northern District of California. Trial is set for January 3, 2013. MSI believes that it does not infringe any valid and enforceable claim of the 747 patent, and intends to litigate this action vigorously. The Company is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

*Freescale Litigation.* On July 6, 2012, Freescale Semiconductor, Inc. (Freescale) filed a complaint against MSI in the United States 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 (collectively, the Freescale patents in suit) against certain of the Company's integrated circuits and/or chipsets. The complaint seeks unspecified damages and a permanent injunction. MSI believes that it does not infringe any valid and enforceable claim of the Freescale patents in suit, and intends to litigate this action vigorously. The Company is currently unable to predict the outcome of this lawsuit and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

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*General.* The Company is also party to various other legal proceedings and claims arising in the normal course of business. The legal proceedings and claims described above could result in substantial costs and could divert the attention and resources of the Company's management. Although the legal responsibility and financial impact with respect to each of these proceedings and claims cannot currently be ascertained, an unfavorable outcome in any of such actions could have a material adverse effect on the Company's cash flows. As to each of the ongoing legal matters mentioned above, the Company is unable to predict its outcome and therefore cannot determine the likelihood of loss nor estimate a range of possible loss. Litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling in litigation could require the Company to pay damages or one-time license fees or royalty payments and could prevent the Company

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

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 it competes lawfully and that its marketing, business and intellectual property benefit its customers and shareholders, and it will continue to conduct a vigorous defense in these proceedings. 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.

***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 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 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 unaudited condensed consolidated balance sheets as the amounts, if any, cannot be reasonably estimated. 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 10. Shareholders' Equity*****Stock Plans***

Activity under the Company's stock option plans for the six months ended July 28, 2012 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 January 28, 2012	52,467	\$ 12.53	3,124	\$ 15.43	55,591	\$ 12.70
Granted	6,855	\$ 14.75		\$	6,855	\$ 14.75
Exercised	(3,117)	\$ 7.23		\$	(3,117)	\$ 7.23
Canceled/Forfeited	(963)	\$ 16.20	(60)	\$ 15.43	(1,023)	\$ 16.16
Balance at July 28, 2012	55,242	\$ 13.04	3,064	\$ 15.43	58,306	\$ 13.17
Vested or expected to vest at July 28, 2012	53,650	\$ 13.00				
Exercisable at July 28, 2012	41,521	\$ 12.89				

For time-based stock options vested and expected to vest at July 28, 2012, the aggregate intrinsic value was \$82.7 million and the weighted average remaining contractual term was 4.9 years. For time-based stock options exercisable at July 28, 2012, the aggregate intrinsic value was \$82.1 million and the weighted average remaining contractual term was 4.8 years. There was no aggregate intrinsic value for market-based stock



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options at July 28, 2012 and the weighted average remaining contractual term of market-based stock options vested and expected to reach the end of the vesting period at July 28, 2012 was 8.8 years. The Company's closing stock price as reported on the NASDAQ Global Select Market for all in-the-money options as of July 27, 2012 is used to calculate the aggregate intrinsic value.

As of July 28, 2012, the unamortized compensation expense for time-based stock options was \$60.1 million and market-based stock options was \$8.0 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 2.7 years and 1.4 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 for the six months ended July 28, 2012 (in thousands, except for prices):

	<b>Restricted Stock Units Outstanding</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance at January 28, 2012	9,646	\$ 17.38
Granted	6,829	\$ 15.13
Vested	(2,429)	\$ 17.87
Canceled/Forfeited	(809)	\$ 18.02
Balance at July 28, 2012	13,237	\$ 16.09

As of July 28, 2012, compensation costs related to restricted stock units not yet recognized amounted to \$165.3 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 1.8 years.

***Employee Stock Purchase Plan***

During the three and six months ended July 28, 2012, a total of 3.3 million shares were issued at a weighted-average price of \$10.40 per share under the 2000 Employee Stock Purchase Plan, as amended and restated (the ESPP). During the three and six months ended July 30, 2011, a total of 2.4 million shares were issued at a weighted-average price of \$12.57 per share under the ESPP. As of July 28, 2012, there was \$56.7 million of unrecognized compensation cost related to the ESPP.

***Share Repurchase Program***

The Company repurchased 19.8 million common shares for \$250.3 million in cash during the three months ended July 28, 2012 and 9.1 million common shares for \$135.7 million in cash during the three months ended July 30, 2011. The Company repurchased 34.4 million common shares for \$473.5 million in cash during the six months ended July 28, 2012 and 59.4 million common shares for \$939.2 million in cash during the six months ended July 30, 2011. The repurchased shares were retired immediately after the repurchases were completed. As of July 28, 2012, a total of 127.1 million cumulative shares have been repurchased under the Company's share repurchase program for a total \$1.9 billion in cash and there was \$598.2 million remaining available for future share repurchases.

***Dividend Program***

In May 2012, the Company announced that it had declared the payment of its first quarterly dividend of \$0.06 per share. As a result, cash dividends of \$33.5 million were paid in the three and six months ended July 28, 2012.

On August 16, 2012, the Company announced that its board of directors declared a cash dividend of \$0.06 per share to be paid on October 4, 2012 to shareholders of record as of September 13, 2012. The Company intends to pay a regular quarterly cash dividend on its common shares subject to, among other things, the best interests of its shareholders, the Company's results of operations, cash balances and future cash requirements, financial condition, statutory requirements of Bermuda law and other factors that the Company's board of directors may deem relevant.

**Note 11. Share-Based Compensation**

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

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	Three Months Ended		Six Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Cost of goods sold	\$ 1,775	\$ 1,916	\$ 3,898	\$ 3,611
Research and development	22,413	22,128	39,587	41,721
Selling and marketing	3,458	3,207	6,494	5,861
General and administrative	5,582	3,104	10,441	6,642
	\$ 33,228	\$ 30,355	\$ 60,420	\$ 57,835

Share-based compensation capitalized in inventory was \$1.7 million at July 28, 2012 and \$2.1 million at January 28, 2012.

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## MARVELL TECHNOLOGY GROUP LTD.

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

*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 and of each market-based equity award using a Monte Carlo simulation model:

	Three Months Ended		Six Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
<b>Time-based Stock Options:</b>				
Weighted average fair value	\$ 3.73	\$ 6.24	\$ 5.59	\$ 6.09
Expected volatility	46%	46%	44%	43%
Expected term (in years)	4.8	4.8	4.8	4.8
Risk-free interest rate	0.7%	1.7%	0.9%	2.1%
Expected dividend yield	2.0%		0-2.0%	

	Three and Six Months Ended	
	July 28, 2012	July 30, 2011
<b>Market-based Stock Options:</b>		
Weighted average fair value	\$	\$ 5.08
Expected volatility	%	42%
Risk-free interest rate	%	0.9-3.6%

There were no market-based stock options granted during the three and six months ended July 28, 2012. The fair value of each market-based stock option award is estimated on the date of grant using a Monte Carlo simulation model that uses the assumptions noted in the above table, including the same volatility applied to the Company's time-based options. Because a Monte Carlo simulation model incorporates ranges of assumptions for inputs, those ranges are disclosed where applicable. The Company uses historical data to estimate employee termination within the valuation model. The expected term of 2.66 years for market-based stock options granted during the three months ended April 30, 2011 was derived from the output of the valuation model and represents the period of time that options granted are expected to be outstanding.

The fair value of each restricted stock unit is estimated based on the market price of the Company's common shares on the date of grant less the expected dividend yield.

	Three and Six Months Ended	
	July 28, 2012	July 30, 2011
<b>Employee Stock Purchase Plan:</b>		
Estimated fair value	\$ 3.77	\$ 4.09
Volatility	39%	46%
Expected term (in years)	1.3	0.5
Risk-free interest rate	0.2%	0.2%
Dividend yield	2.0%	

**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, 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 industry trends; our expectations regarding the impact of the flooding in Thailand; 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 third quarter ending October 27, 2012 compared with the second quarter ended July 28, 2012; 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, the impact of international conflict and continued economic volatility in either domestic or foreign markets; our dependence upon the hard disk drive and mobile and wireless markets, which are highly cyclical and intensely competitive; our ability to successfully compete in the markets in which we serve; our ability to scale our operations in response to changes in demand for existing or new products and services; our maintenance of an effective system of internal controls; our dependence on a small number of customers; our ability and our customers' ability to develop new and enhanced products; our success in integrating businesses we acquire and the impact such acquisitions may have on our operating results; our ability to estimate customer demand 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; the impact of lengthy and expensive product sales cycles; and the outcome of pending or future litigation and legal proceedings. Additional factors which could cause actual results to differ materially include those set forth in the following discussion, as well as the risks discussed in Part II, Item 1A, Risk Factors, and other sections of this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date hereof. Unless required by law, we undertake no obligation to update any forward-looking statements.*

**Overview**

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



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A significant number of our products are being incorporated into consumer electronics products, including gaming devices, 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 quarters and positively impact our results in the second and third quarters 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 and the fiscal year ending February 2, 2013 as fiscal 2013.

## **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 January 28, 2012.

## **Results of Operations**

Our revenue during the second quarter of fiscal 2013 increased by 2% over the prior quarter, and was down by 9% compared to the second quarter of fiscal 2012. Our actual results were lower than our expectations, primarily for three reasons:

A slow-down in purchases in the PC supply chain resulting in lower sales of our hard disk drive ( HDD ) products. This slowdown was despite the recovery of HDD manufacturing from the Thailand floods that occurred in October 2011.

Revenue from our leading North American handset customer declined due to the continued competitive challenges in the markets they serve.

The market for our TD-SCDMA smartphone products in China did not grow as much as we anticipated due to slowing market demand. In addition, towards the second half of the second quarter, we faced increased competition for the first time for our single chip solutions, which impacted average selling prices and to a lesser degree, unit volumes.

While we expect the challenges in our mobile and wireless end markets to continue in the near-term, we continue to invest in new products for the future. In addition, we are pleased with some of the developments during the second quarter of fiscal 2013, including:

The announcement of our next generation platform for smartphones, a unified 3G platform for TD-SCDMA and WCDMA. This platform integrates a high performance 1.2 GHz dual-core processor, powerful 3D graphics, WiFi, Bluetooth, NFC, GPS, RF and power management. In addition, we are now accelerating our TD and FDD-LTE roadmap, and we expect to sample pin compatible 4G platform solutions to our customers early next year.

We continued to see strong growth for our 500 gigabyte per platter controllers at our storage customers. We are currently the only supplier of this class of product for mobile drive market and we believe this competitive advantage is helping us to grow

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our share of the HDD controller market.

Solid state drive ( SSD ) revenue continued to grow, and although still a small portion of our storage revenue we expect SSD revenue to continue to grow.

In the networking end market, we outperformed the market during the past year, growing revenue by introducing new products in new growth areas. This has offset the sluggish results in the overall networking end market. Our new products include our recently introduced passive optical network ( PON ) and 10 gigabyte switching products, as well as the programmable network processors introduced following our acquisition of Xelerated.



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Our cash, cash equivalents and short-term investments were \$2.1 billion at July 28, 2012. We generated cash flow from operations of \$189 million during the second quarter of fiscal 2013.

We paid our first quarterly dividend of \$0.06 per share in the quarter, and recently announced another dividend of \$0.06 per share to be paid during the third quarter of fiscal 2013.

We repurchased an additional 19.8 million of common shares for \$250.3 million in cash during the quarter as we continued to reduce the number of outstanding shares through our share repurchase program.

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		Six Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Net revenue	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Cost of goods sold	46.8	42.1	46.4	41.9
Research and development	32.4	27.8	32.3	29.0
Selling and marketing	5.0	4.5	5.0	4.6
General and administrative	3.1	2.7	3.2	2.9
Amortization and write-off of acquired intangible assets	1.6	1.2	1.7	1.4
Total operating costs and expenses	88.9	78.3	88.6	79.8
Operating income	11.1	21.7	11.4	20.2
Interest and other income (expense), net	0.7	0.2	0.4	0.1
Income before income taxes	11.8	21.9	11.8	20.3
Provision for income taxes	0.4	0.5	0.2	0.3
Net income	11.4%	21.4%	11.6%	20.0%

**Three and Six Months Ended July 28, 2012 and July 30, 2011***Net Revenue*

	Three Months Ended			Six Months Ended		
	July 28, 2012	July 30, 2011	% Change	July 28, 2012	July 30, 2011	% Change
Net revenue	\$ 816,104	\$ 897,520	(9.1)%	\$ 1,612,455	\$ 1,699,922	(5.1)%

Net revenue for the three and six months ended July 28, 2012 was lower compared to the three and six months ended July 30, 2011 primarily due to declines in our storage end markets as volumes have not recovered to the levels before the Thailand floods that occurred in October 2011. Although drive manufacturing capacity has recovered, expected seasonal demand from the PC supply chain has not yet fully returned to pre-flood levels. Within our mobile and wireless end markets, net revenue from our leading North American handset customer declined due to the continued competitive challenges that they face, partially offset by the continuing ramp of our TD-SCDMA products for the smartphone market in China. Within our networking end market, growth in our PON products as well as network processors from our acquisition of Xelerated drove a moderate increase compared to the same period a year ago.

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We currently expect overall net revenue for the three months ending October 27, 2012 to be between \$800 million and \$850 million.

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Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. Net revenue attributable to significant end customers is presented in the following table as a percentage of net revenue:

Customer	Three Months Ended		Six Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Western Digital	17%	21%	16%	21%
Toshiba	11%	*	11%	*

\* Less than 10% of net revenue

In May 2012, Western Digital acquired Hitachi's HDD unit. The percentage of net revenue for Western Digital for the three and six months ended July 30, 2011 has not been adjusted to reflect this acquisition. In addition to the end customers reported above, one distributor accounted for more than 10% of our net revenue for the three and six months ended July 28, 2012. For the comparable three and six months ended July 30, 2011, no single distributor accounted for more than 10% of our net revenue.

Because we sell our products to many OEM manufacturers who have manufacturing operations located in Asia, a significant percentage of our sales are made to customers located outside of the United States. Sales to customers located in Asia represented 91% and 89% of our net revenue for the three and six months ended July 28, 2012, respectively, compared to 86% and 85% of our net revenue for the three and six months ended July 30, 2011, respectively. We expect that a significant portion of our net revenue will continue to be represented by sales to our customers in Asia.

*Cost of Goods Sold*

	Three Months Ended			Six Months Ended		
	July 28, 2012	July 30, 2011	% Change	July 28, 2012	July 30, 2011	% Change
	(in thousands, except percentage)					
Cost of goods sold	\$ 381,839	\$ 378,117	1.0%	\$ 748,161	\$ 712,592	5.0%
% of net revenue	46.8%	42.1%		46.4%	41.9%	

The increase in cost of goods sold as a percentage of net revenue for the three and six months ended July 28, 2012 compared to the three and six months ended July 30, 2011 was primarily due to the product pricing declines outpacing the cost reductions received from our manufacturing partners. In addition, the gross margin mix of our products sold declined compared to the corresponding periods of fiscal 2012, driven by growth in businesses with lower gross margins. 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 October 27, 2012 to be flat compared to the three months ended July 28, 2012.

*Share-Based Compensation Expense*

	Three Months Ended		Six Months Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
	(in thousands)			
Cost of goods sold	\$ 1,775	\$ 1,916	\$ 3,898	\$ 3,611
Research and development	22,413	22,128	39,587	41,721

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Selling and marketing	3,458	3,207	6,494	5,861
General and administrative	5,582	3,104	10,441	6,642
	\$ 33,228	\$ 30,355	\$ 60,420	\$ 57,835

Share-based compensation expense increased during the three and six months ended July 28, 2012 by \$2.9 million and \$2.6 million, respectively, compared to the three and six months ended July 30, 2011. The increase was primarily attributable to higher headcount in fiscal 2013 compared to fiscal 2012 combined with an increase in expense related to the employee stock purchase plan. The offering price of the employee stock purchase plan was reset in June 2012 due to the decline in our stock price and restarted a new 24-month offering period. These increases were partially offset by a decrease in expense from restricted stock units granted under a tender offer exchange program, which became fully vested by the end of fiscal 2012. For fiscal 2012, share-based compensation expense for the three months ended July 30, 2011 included the recovery of previously recognized expense for certain share-based awards containing performance targets that were no longer expected to be achieved. There was no such recovery in the three months ended July 28, 2012.

**Table of Contents***Research and Development*

	Three Months Ended			Six Months Ended		
	July 28, 2012	July 30, 2011	% Change	July 28, 2012	July 30, 2011	% Change
	(in thousands, except percentage)					
Research and development	\$ 264,175	\$ 249,604	5.8%	\$ 520,145	\$ 492,141	5.7%
% of net revenue	32.4%	27.8%		32.3%	29.0%	

Research and development expense increased for the three and six months ended July 28, 2012 by \$14.6 million and \$28.0 million, respectively, compared to the three and six months ended July 30, 2011. These increases were primarily attributable to higher personnel-related costs as a result of increased headcount and higher average employee compensation. For the three months ended July 28, 2012, the increase in research and development expense compared to the three months ended July 30, 2011 also included higher product development costs.

We currently expect that research and development expense for the three months ending October 27, 2012 will be similar to the level of expense reported for the three months ended July 28, 2012 as we continue to invest in future growth.

*Selling and Marketing*

	Three Months Ended			Six Months Ended		
	July 28, 2012	July 30, 2011	% Change	July 28, 2012	July 30, 2011	% Change
	(in thousands, except percentage)					
Selling and marketing	\$ 41,034	\$ 40,390	1.6%	\$ 81,100	\$ 78,542	3.3%
% of net revenue	5.0%	4.5%		5.0%	4.6%	

Selling and marketing expense for the three and six months ended July 28, 2012 increased by \$0.6 million and \$2.6 million, respectively, compared to the three and six months ended July 30, 2011. These increases were primarily attributable to higher expenses arising from greater trade show and marketing communication activities.

We currently expect that selling and marketing expense for the three months ending October 27, 2012 will be similar to the level of expense reported for the three months ended July 28, 2012.

*General and Administrative*

	Three Months Ended			Six Months Ended		
	July 28, 2012	July 30, 2011	% Change	July 28, 2012	July 30, 2011	% Change
	(in thousands, except percentage)					
General and administrative	\$ 25,718	\$ 23,631	8.8%	\$ 51,423	\$ 48,415	6.2%
% of net revenue	3.1%	2.7%		3.2%	2.9%	

General and administrative expense for the three and six months ended July 28, 2012 increased by \$2.1 million and \$3.0 million, respectively, compared to the three and six months ended July 30, 2011. These increases were driven by higher share-based compensation expense partially offset by decreases in legal expenses due to the settlement of several cases prior to the end of fiscal 2012.

We currently expect that general and administrative expense for the three months ending October 27, 2012 will be similar to the level of expense reported for the three months ended July 28, 2012.

*Amortization and Write-Off of Acquired Intangible Assets*

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	Three Months Ended			Six Months Ended		
	July 28, 2012	July 30, 2011	% Change	July 28, 2012	July 30, 2011	% Change
	(in thousands, except percentage)					
Amortization and write-off of acquired intangible assets	\$ 13,023	\$ 11,138	16.9%	\$ 27,378	\$ 25,479	7.5%
% of net revenue	1.6%	1.2%		1.7%	1.4%	

Amortization and write-off of acquired intangible assets for the three and six months ended July 28, 2012 increased in both periods by \$1.9 million compared to the three and six months ended July 30, 2011. These increases were primarily due to the intangible assets acquired in the fourth quarter of fiscal 2012. Also, amortization and write-off of acquired intangible assets for the six months ended July 28, 2012 included a \$0.8 million write-off of in-process research and development related to an abandoned project. These increases were partially offset by certain intangible assets acquired in earlier acquisitions that became fully amortized.

**Table of Contents***Interest and Other Income, Net*

	Three Months Ended			Six Months Ended		
	July 28, 2012	July 30, 2011	% Change	July 28, 2012	July 30, 2011	% Change
	(in thousands, except percentage)					
Interest and other income, net	\$ 5,864	\$ 2,064	184.1 %	\$ 6,921	\$ 1,846	274.9 %
% of net revenue	0.7%	0.2%		0.4%	0.1%	

Interest and other income, net, for the three and six months ended July 28, 2012 increased compared to the three and six months ended July 30, 2011 primarily due to the effect of the relative strengthening of the U.S. dollar on our foreign currency denominated tax liabilities. This was partially offset by lower interest income in the three and six months ended July 28, 2012 due to lower average cash and investment balances, as well as a lower rate of return.

*Provision for Income Taxes*

	Three Months Ended			Six Months Ended		
	July 28, 2012	July 30, 2011	% Change	July 28, 2012	July 30, 2011	% Change
	(in thousands, except percentage)					
Provision for income taxes	\$ 3,105	\$ 4,312	(28.0)%	\$ 3,552	\$ 5,346	(33.6)%
% of net revenue	0.4%	0.5%		0.2%	0.3%	

For the three and six months ended July 28, 2012, our effective tax rate was 3.2% and 1.9%, respectively. The income tax provision for the three and six months ended July 28, 2012 included the current income tax liability of \$5.9 million and \$8.6 million, respectively, which were primarily offset by net reductions in unrecognized tax benefits of \$3.4 million in the three months ended July 28, 2012 and \$6.0 million in the six months ended July 28, 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.

For the three and six months ended July 30, 2011, our effective tax rate was 2.2% and 1.6%, respectively. The income tax provision for the three and six months ended July 30, 2011 included the current income tax liability of \$4.9 million and \$8.3 million, respectively, partially offset by a net reduction in unrecognized tax benefits of \$1.0 million in the three months ended July 30, 2011 and \$3.4 million in the six months ended July 30, 2011 primarily due to the expiration of the statute of limitations in non-U.S. jurisdictions less increases in current unrecognized tax benefit estimates.

During the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could decrease due to potential settlement with tax authorities and the expiration of applicable statutes of limitations. However, the amount cannot be reasonably estimated as the Company will have negotiations with various tax authorities throughout the year.

**Liquidity and Capital Resources**

Our principal source of liquidity as of July 28, 2012 consisted of approximately \$2.1 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 and from the issuance of common shares through our employee stock option and purchase plans, will be sufficient to cover our working capital needs, capital expenditures, investment requirements, commitments, repurchases of our common shares and payment of quarterly dividends for at least the next 12 months. 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 enter into additional acquisitions of businesses, assets, products, technologies or other strategic arrangements in the future, which could also require us to seek debt or equity financing. 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*

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Net cash provided by operating activities was \$387.9 million for the six months ended July 28, 2012. The cash inflows from operations for the six months ended July 28, 2012 were due to \$323.0 million of net income adjusted for non-cash items and positive working capital changes of \$64.8 million. The increase in working capital for the six months ended July 28, 2012 was primarily driven by a decrease in accounts receivable due to lower sales combined with a decrease in prepaid expenses and other assets. The increase in accounts payable also contributed to the increase in working capital for the six months ended July 28, 2012.



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Net cash provided by operating activities was \$440.6 million for the six months ended July 30, 2011. The cash inflows from operations in the six months ended July 30, 2011 were primarily due to \$476.2 million of net income adjusted for non-cash items, offset by a negative effect from changes in working capital.

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

Net cash provided by investing activities was \$192.5 million for the six months ended July 28, 2012 compared to net cash used in investing activities of \$526.7 million for the six months ended July 30, 2011. Net cash provided by investing activities for the six months ended July 28, 2012 was generated from the sale and maturities of marketable securities of \$881.3 million less purchases of marketable securities of \$646.9 million. The net cash inflow from marketable securities for the six months ended July 28, 2012 was partially offset by the purchase of \$29.7 million of property and equipment, \$6.5 million of IP licenses and \$5.8 million for strategic investments.

The net cash used in investing activities in the six months ended July 30, 2011 was primarily due to net purchases of marketable securities of \$458.8 million. In addition, we purchased \$42.2 million of property and equipment, and paid \$16.8 million for an acquisition.

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

Net cash used in financing activities was \$459.1 million for the six months ended July 28, 2012 compared to net cash used in financing activities of \$898.0 million for the six months ended July 30, 2011. For the six months ended July 28, 2012, net cash used in financing activities was primarily attributable to repurchases under our share repurchase program of 34.4 million common shares in the open market for \$473.5 million and the payment of our first quarterly dividend of \$33.5 million. The cash outflow was partially offset by net proceeds of \$47.9 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. For the six months ended July 30, 2011, net cash provided by financing activities was primarily attributable to repurchases under our share repurchase program of 59.4 million common shares in the open market for \$939.2 million. The cash outflow was partially offset net proceeds of \$41.8 million from the issuance of 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**

As of July 28, 2012, we did not have any material off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### **Contractual Obligations**

We presented our contractual obligations at January 28, 2012 in our Annual Report on Form 10-K for the fiscal year then ended. There has been no material changes outside the ordinary course of business in those obligations during six months ended July 28, 2012.

### **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 July 28, 2012. 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 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 generally classified as available-for-sale and, consequently, are recorded on our balance sheets at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income in shareholders' equity. Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

To provide an assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact that an adverse change in interest rates would have on the value of the investment portfolio. Based on investment positions as of July 28, 2012, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$13.4 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.



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As of July 28, 2012, our investment portfolio included \$19.5 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. 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 July 28, 2012, the fair value of auction rate securities was \$1.4 million less than par value and recorded in long-term investments.

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

*Investment Risk.* We invest in equity instruments of privately held companies for strategic purposes. We account for these investments under the cost method when we do not have the ability to exercise significant influence or control over the operations of these companies and under the equity method when we have the ability to exercise significant influence, but do not have control. Carrying value of these equity investments was \$11.7 million at July 28, 2012, 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.

*Commodity Price Risk.* We are subject to risk from fluctuating market prices of certain commodity raw materials, particularly gold, that are incorporated into our end products. Supplies for such commodities may from time-to-time become restricted, or general market factors and conditions may affect the 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 rising commodity prices. We are currently restructuring certain manufacturing processes to use copper instead of gold in our products. While we continue to attempt to mitigate the risk of similar increases in commodities-related costs, there can be no assurance that we will be able to successfully safeguard against potential short-term and long-term commodities price fluctuations. We do not enter into formal hedging arrangements to mitigate against commodity risk.

*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. De-designated 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 3.4%. We expect our hedges of foreign currency exposures to be highly effective and offset a significant portion of the short-term impact of changes in exchange rates.

## **Item 4. Controls and Procedures**

### **Management's Evaluation of Disclosure Controls and Procedures**

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Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Our disclosure controls and procedures are

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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 Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of July 28, 2012, 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 July 28, 2012 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.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The information under the caption "Contingencies" as set forth in "Note 9 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 January 28, 2012 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 markets we address, including the continuing volatility in the technology sector and semiconductor industry;

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

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, including the impact of changing commodity prices such as the price of gold;

failure to qualify our products or our suppliers' manufacturing lines;

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

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;

gain or loss of a key customer or design win;

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

failure to protect our intellectual property;

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;

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.

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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. 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 public market 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 the 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. 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 wired and wireless products and services. For example, we expect to continue seeing increased competition in the TD-SCDMA smartphone market in China. 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 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. Because we offer SSD controllers, leveraging our technology in hard drives, we believe we will maintain significant market share even if demand for traditional HDDs decreases.

***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.***



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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

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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 subsequent global economic recovery in the semiconductor industry. If the economy or markets in which we operate deteriorate from current levels, our business, financial condition and results of operations will likely be materially and adversely affected. Additionally, the combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could adversely impact our results of operations.

***We 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 the U.S., China and Singapore. In addition, substantially all of our assembly and testing facilities are located in Singapore, Taiwan, Malaysia and the Philippines. Because of the geographic concentration of these third party foundries, as well as our assembly and test subcontractors, we are exposed to the risk that their operations may be disrupted by regional disasters 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. In addition, when demand is strong, availability of foundry capacity may be constrained, 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. For example, in recent years, we experienced some supply shortages due to the difficulties encountered by the foundries in rapidly increasing their production capacities after the recovery from the severe economic down turn from fiscal 2009 to fiscal 2012 due to a rapid increase in demand. Although we have entered into contractual commitments to supply specified levels of products to some of our customers, we may not have sufficient levels of production capacity with all of our foundries. In addition, foundry capacity may not be available when we need it or at reasonable prices. We place our orders on the basis of our customers' purchase orders or our forecast of customer demand, and the foundries can allocate capacity to the production of other companies' products and reduce deliveries to us on short notice. It is possible that foundry customers that are larger and better financed than we are or that have long-term agreements with our main foundries may induce our foundries to reallocate capacity to those customers. This reallocation could impair our ability to secure the supply of components that we need. 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.



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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 significant 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.

### ***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 three largest customers represented 35% of our net revenue in the six months ended July 28, 2012. 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;

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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.

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***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. 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 have to do so again in the future.

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

Our future success will depend on our ability, in a timely and cost-effective manner, to develop and introduce new products and enhancements to our existing products. We sell products in markets that are characterized by rapid technological change, evolving industry standards, frequent new product introductions, short product life cycles and increasing demand for higher levels of integration and smaller process geometries. In addition, the development of new silicon devices is highly complex, and due to supply chain cross-dependencies and other issues, we may experience delays in completing the development, production and introduction of our new products. Our past sales and profitability have resulted, to a large extent, from our ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products incorporating the new standards and technologies. Our ability to adapt to these changes and to anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving our competitive position and prospects for growth. If new industry standards emerge that we do not properly anticipate, our products or our customers' products could become unmarketable or obsolete, and we could lose market share. We may also have to incur substantial unanticipated costs to comply with these new standards. In addition, our target markets continue to undergo rapid growth and consolidation. A significant slowdown in any of these markets could materially and adversely affect our business, financial condition and results of operations. Our success will also depend on the ability of our customers to develop new products and enhance existing products for the markets they serve and to introduce and promote those products successfully. 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 a timely manner.

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.

***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

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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

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typically followed by an extended development period by our customers and an additional three to nine month period before a customer commences volume production of equipment incorporating our products. This lengthy sales cycle creates the risk that our customers will decide to cancel or change product plans for products incorporating our integrated circuits prior to completion, which makes it even more difficult to forecast customer demand.

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

If we overestimate customer demand, our excess or obsolete inventory may increase significantly, which would reduce our gross margin and adversely affect our financial results. 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.

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

Litigation involving patents and other intellectual property is widespread in the high-technology industry and is particularly prevalent in the semiconductor industry, where a number of companies and other entities aggressively bring numerous infringement claims to assert their patent portfolios. The amount of damages alleged in intellectual property infringement claims can often be very significant. For example, in pre-trial proceedings related to our litigation with Carnegie Mellon University ( CMU ) as described in more detail in Note 9 of the notes to our unaudited condensed consolidated financial statements, CMU has alleged that it is entitled to damages in the amount of approximately \$735 million through March 2010 as a result of the alleged infringement. If we receive a significant adverse judgment in any litigation matter, our results of operations and financial position may 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;

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.



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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.

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***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 9 Commitments and Contingencies of our notes to the 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 are exposed to potential impairment charges on certain assets.***

We had approximately \$2.0 billion of goodwill and \$114.1 million of intangible assets on our balance sheet as of July 28, 2012. Under U.S. GAAP, we are required to review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We perform an annual assessment of goodwill at the beginning of our fiscal fourth quarter and we also assess the impairment of goodwill on an interim basis whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the businesses acquired fail to meet our expectations set out at the time of the acquisition or if our market capitalization adjusted for control premiums and other factors declines to below our carrying value, we could incur significant goodwill or intangible impairment charges, which could negatively impact our financial results. In addition, from time to time, we have made investments in other private companies. If the companies that we invest in are unable to execute their plans and succeed in their respective markets, we may not benefit from such investments, and we could potentially lose the amounts we invest. We evaluate our investment portfolio on a regular basis to determine if impairments have occurred. Impairment charges could have a material impact on our results of operations in any period.

***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. For example, in order to reduce expenses in the challenging economic environment that began during the second half of fiscal 2009, in late fiscal 2009 and early in fiscal 2010, we implemented certain cost reduction measures to reduce operating expenses. Since that time we have hired a significant numbers of employees primarily in the research and development area. 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



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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.

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

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

***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.

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

A substantial portion of our business is conducted outside of the United States and, as a result, we are subject to foreign business, political and economic risks. All of our products are manufactured outside of the United States. Our current qualified integrated circuit foundries are located in the same region within Taiwan, and our primary assembly and test subcontractors are located in the Pacific Rim region. In addition, many of our customers are located outside of the United States, primarily in Asia, which further exposes us to foreign risks. Sales to customers located in Asia represented approximately 89% of our net revenue in six months ended July 28, 2012, 89% of our net revenue in fiscal 2012 and 81% of our net revenue in fiscal 2011.

We also have substantial operations outside of the U.S. 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;

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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;

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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.

***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.

***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.***

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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

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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.

***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, the U.S. Congress 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.

***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 with the local governments in certain foreign jurisdictions where we have significant operations to provide us with favorable tax rates in those jurisdictions if certain criteria are met.

We have obtained from the Minister of Finance of Bermuda under the Exempt Undertakings Tax Protection Act 1966, as amended, an undertaking that, in the event 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 Economic Development Board of Singapore (the "EDB") granted Pioneer Status to our wholly-owned subsidiary in Singapore in July 1999. This tax exemption was to expire after ten years, but the EDB in June 2006 agreed to extend the term to 15 years. As a result, we anticipate that a significant portion of the income we earn in Singapore during this period will be exempt from the Singapore income tax. We are required to meet several requirements as to investment, headcount and activities in Singapore to retain this status.

Under the Israeli Encouragement law of approved or benefited enterprise, two branches of Marvell Israel ("MISL"), the GTL branch and the cellular branch (formerly Marvell DSPC), are entitled to a beneficial tax program that includes reduced tax rates and exemption of certain income. The first program was approved for MISL in 1995 and the most recent was approved in 2003. Marvell DSPC has five approved programs, with the first approved in 1990 and the most recent benefited enterprise approved in 2010. 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 2020. A new amendment to the Encouragement law, which was approved by the Israeli government in December 2011, came into effect January 1, 2012. MISL and DSPC will not apply the new amendment to the Encouragement law prior to fiscal 2023.

During fiscal 2007, our Switzerland subsidiary received a ten-year Federal and Cantonal tax holiday on revenues from research and design and wafer supply trading activities that will expire in 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 may be unable to protect our intellectual property, which would negatively affect our ability to compete.***



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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

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we have developed that could harm our competitive position and decrease our revenues. We believe that the protection of our intellectual property rights is and will continue to be important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies. We also enter into confidentiality or license agreements with our employees, consultants and business partners, and control access to and distribution of our documentation and other proprietary information. We have been issued several U.S. and foreign patents and have a number of pending U.S. and foreign patent applications. However, a patent may not be issued as a result of any applications or, if issued, claims allowed may not be sufficiently broad to protect our technology. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. Despite our efforts, unauthorized parties may attempt to copy or otherwise obtain and use our products or proprietary technology. Monitoring unauthorized use of our technology is difficult, and the steps that we have taken may not prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours, 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 often made available under licenses, which impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the forms of license customarily used to protect our intellectual property. 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.

*There can be no assurance that we will continue to declare cash dividends at all or in any particular amounts.*

In May 2012, we announced the declaration of our first quarterly cash dividend. We intend to continue to pay a regular quarterly cash dividend on our common shares subject to, among other things, the best interests of our shareholders, our results of operations, cash balances and future cash requirements, financial condition, statutory requirements of Bermuda law, 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. A reduction in our dividend payments could have a negative effect on our share price.

*If our internal control over financial reporting or disclosure controls and procedures are not effective, there may be errors in our financial statements that could require a restatement or our filings may not be filed on a timely basis and investors may lose confidence in our reported financial information, which could lead to a decline in our stock price.*

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

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

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

Dr. Sehat Sutardja, our President and Chief Executive Officer, and Weili Dai, who serves as the Vice President and General Manager of Communications and Consumer Business of Marvell Semiconductor, Inc, 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 19% of our outstanding common shares as of July 28, 2012. 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.

*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 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:

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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;

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

Our Bye-Laws contain a 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.

***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.***

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

authorizing the issuance of preferred stock without shareholder approval; and

requiring a vote of two-thirds of votes cast in person or by proxy to approve any change of corporate control in the event the action is not approved by at least  $66\frac{2}{3}\%$  of the directors holding office at the date of the Board meeting to approve the action.

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

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There were no sales of unregistered securities during the three months ended July 28, 2012.

**Issuer Purchases of Equity Securities**

The following table presents details of our repurchases during the three months ended July 28, 2012 (in thousands, except per share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximated Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 29 May 26, 2012	10,002	\$ 13.00	10,002	\$ 718,419
May 27 June 23, 2012	8,000	\$ 12.51	8,000	\$ 618,352
June 24 July 28, 2012	1,845	\$ 10.95	1,845	\$ 598,154
Total	19,847	\$ 12.61	19,847	\$ 598,154

- (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. In May 2012, we announced an additional increase of \$500 million to the share repurchase program. This increases the total available under the repurchase program to \$2.5 billion. We intend to effect the repurchase program in accordance with the conditions of Rule 10b-18 under the Exchange Act. The 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. 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:

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



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\* 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.

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**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.

September 4, 2012  
Date

By: /s/ Clyde R. Hosein  
Clyde R. Hosein  
*Chief Financial Officer and Secretary*

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