

MARVELL TECHNOLOGY GROUP LTD  
Form 10-Q  
June 04, 2015  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 2, 2015

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)

**Bermuda**  
(State or other jurisdiction of

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

incorporation or organization)

Identification No.)

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

**(441) 296-6395**

(Address of principal executive offices, Zip Code and registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of common shares of the registrant outstanding as of May 28, 2015 was 517.6 million shares.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements:</u>	
<u>Unaudited Condensed Consolidated Balance Sheets as of May 2, 2015 and January 31, 2015</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the three months ended May 2, 2015 and May 3, 2014</u>	4
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the three months ended May 2, 2015 and May 3, 2014</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended May 2, 2015 and May 3, 2014</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	37
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	39
Item 1A. <u>Risk Factors</u>	39
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
Item 6. <u>Exhibits</u>	53
<u>Signatures</u>	54
<u>Exhibit Index</u>	55

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

	<b>May 2, 2015</b>	<b>January 31, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,038,731	\$ 1,210,977
Short-term investments	1,462,184	1,318,578
Accounts receivable, net	393,814	420,955
Inventories	339,859	308,162
Prepaid expenses and other current assets	73,563	68,140
Deferred income taxes	17,588	17,228
<b>Total current assets</b>	<b>3,325,739</b>	<b>3,344,040</b>
Property and equipment, net	325,754	340,639
Long-term investments	10,111	10,226
Goodwill	2,029,945	2,029,945
Acquired intangible assets, net	27,645	30,698
Other non-current assets	122,855	128,839
<b>Total assets</b>	<b>\$ 5,842,049</b>	<b>\$ 5,884,387</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 297,050	\$ 282,899
Accrued liabilities	117,800	131,388
Accrued employee compensation	140,545	154,969
Deferred income	61,093	68,120
<b>Total current liabilities</b>	<b>616,488</b>	<b>637,376</b>
Non-current income taxes payable	66,021	68,729
Other non-current liabilities	28,268	32,193
<b>Total liabilities</b>	<b>710,777</b>	<b>738,298</b>
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Common shares, \$0.002 par value	1,036	1,030
Additional paid-in capital	3,101,773	3,099,548
Accumulated other comprehensive income	80	308
Retained earnings	2,028,383	2,045,203
<b>Total shareholders' equity</b>	<b>5,131,272</b>	<b>5,146,089</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,842,049</b>	<b>\$ 5,884,387</b>

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

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Net revenue	\$ 724,288	\$ 957,830
Operating costs and expenses:		
Cost of goods sold	351,153	493,860
Research and development	280,114	295,363
Selling and marketing	36,174	38,358
General and administrative	41,027	30,573
Amortization and write-off of acquired intangible assets	2,568	6,689
Total operating costs and expenses	711,036	864,843
Operating income	13,252	92,987
Interest and other income, net	5,167	1,925
Income before income taxes	18,419	94,912
Provision (benefit) for income taxes	4,329	(4,567)
Net income	\$ 14,090	\$ 99,479
Net income per share:		
Basic	\$ 0.03	\$ 0.20
Diluted	\$ 0.03	\$ 0.19
Weighted average shares:		
Basic	516,228	505,105
Diluted	527,167	520,751
Cash dividend declared per share	\$ 0.06	\$ 0.06

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Net income	\$ 14,090	\$ 99,479
Other comprehensive income, net of tax:		
Net change in unrealized gain/loss on marketable securities	(1,860)	378
Net change in unrealized gain/loss on auction rate securities	(115)	177
Net change in unrealized gain/loss on cash flow hedges	1,747	(743)
Other comprehensive loss, net	(228)	(188)
Comprehensive income	\$ 13,862	\$ 99,291

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 14,090	\$ 99,479
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,620	27,006
Share-based compensation	33,221	29,969
Amortization and write-off of acquired intangible assets	3,053	7,174
Other expense, net	916	1,470
Excess tax benefits from share-based compensation	(18)	(44)
Changes in assets and liabilities:		
Accounts receivable	27,141	(63,578)
Inventories	(31,318)	(3,105)
Prepaid expenses and other assets	1,065	(2,161)
Accounts payable	17,125	85,128
Accrued liabilities and other non-current liabilities	(11,576)	(7,134)
Accrued employee compensation	(14,424)	30,001
Deferred income	(7,027)	30,932
<b>Net cash provided by operating activities</b>	<b>58,868</b>	<b>235,137</b>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(392,900)	(181,889)
Sales and maturities of available-for-sale securities	247,495	182,311
Investments in privately-held companies		(441)
Purchases of technology licenses	(3,606)	(8,111)
Purchases of property and equipment	(7,334)	(16,131)
Purchase of equipment previously leased	(10,240)	
<b>Net cash used in investing activities</b>	<b>(166,585)</b>	<b>(24,261)</b>
<b>Cash flows from financing activities:</b>		
Repurchase of common stock	(20,273)	
Proceeds from employee stock plans	13,013	19,092
Minimum tax withholding paid on behalf of employees for net share settlement	(22,310)	(24,286)
Dividend payments to shareholders	(30,910)	(30,172)
Payments on technology license obligations	(4,067)	
Excess tax benefits from share-based compensation	18	44
<b>Net cash used in financing activities</b>	<b>(64,529)</b>	<b>(35,322)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(172,246)</b>	<b>175,554</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,210,977</b>	<b>965,750</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,038,731</b>	<b>\$ 1,141,304</b>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.





**Table of Contents**

**MARVELL TECHNOLOGY GROUP LTD.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. The Company and Basis of Presentation**

***The Company***

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

***Basis of Presentation***

The Company's fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2016 and 2015 each have a 52-week period.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments consisting of normal and recurring entries considered necessary for a fair statement of the results for the interim periods have been included in the Company's balance sheet as of May 2, 2015, the results of its operations for the three months ended May 2, 2015 and May 3, 2014, its comprehensive income for the three months ended May 2, 2015 and May 3, 2014, and its cash flows for the three months ended May 2, 2015 and May 3, 2014. The January 31, 2015 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 31, 2015, 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 31, 2015 as filed on March 26, 2015 with the Securities and Exchange Commission. The results of operations for the three months ended May 2, 2015 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to performance-based compensation, revenue recognition, provisions for sales returns and allowances, inventory excess and obsolescence, investment fair values, goodwill and other intangible assets, restructuring, income taxes, litigation and other contingencies. In addition, the Company uses assumptions when employing the Monte Carlo simulation and Black-Scholes valuation models to calculate the fair value of share-based awards that are granted. Actual results could differ from these estimates, and such differences could affect the results of operations reported in future periods.

***Principles of Consolidation***

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



**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2. Recent Accounting Pronouncements***Accounting Pronouncements Recently Adopted*

In April 2014, the Financial Accounting Standards Board ( FASB ) issued an amendment to its guidance regarding the reporting requirements of discontinued operations, which is effective for the Company beginning in the first quarter of fiscal 2016. As a result, the Company has adopted and will apply the new guidance for any future dispositions that meet the criteria of a discontinued operation under the amendment.

*Accounting Pronouncements Not Yet Effective*

In April 2015, the FASB issued new guidance to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The guidance provides a basis for evaluating whether a cloud computing arrangement includes a software license or whether the arrangement should be accounted for as a service contract. The guidance is effective for annual and interim reporting periods beginning after December 15, 2015. The Company is currently evaluating the effect this new guidance will have on its consolidated financial statements.

In May 2014, the FASB issued a new standard on the recognition of revenue from contracts with customers, which will supersede nearly all existing revenue recognition guidance under GAAP. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and assets recognized from costs incurred to obtain or fulfill a contract will also be required. The standard is effective for the Company's first quarter of fiscal 2018 and allows for either full retrospective or modified retrospective adoption. Early adoption is not permitted. The Company is currently evaluating the effects of the new guidance and has not yet selected a transition method nor has it determined the potential effects of adoption on its financial statements.

**Note 3. Investments**

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

		May 2, 2015		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Short-term investments:</b>				
Available-for-sale:				
Corporate debt securities	\$ 1,036,538	\$ 2,599	\$ (905)	\$ 1,038,232
U.S. government and agency debt	269,845	179	(39)	269,985
Asset backed securities	100,422	79	(13)	100,488
Foreign government and agency debt	16,959	11	(6)	16,964
Municipal debt securities	36,511	31	(27)	36,515
Total short-term investments	1,460,275	2,899	(990)	1,462,184
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	12,500		(2,389)	10,111
Total long-term investments	12,500		(2,389)	10,111

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

Total investments	\$ 1,472,775	\$ 2,899	\$ (3,379)	\$ 1,472,295
-------------------	--------------	----------	------------	--------------

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

	January 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Short-term investments:</b>				
Available-for-sale:				
Corporate debt securities	\$ 983,008	\$ 3,872	\$ (563)	\$ 986,317
U.S. government and agency debt	178,898	265	(7)	179,156
Asset backed securities	91,432	108	(9)	91,531
Foreign government and agency debt	28,051	61	(2)	28,110
Municipal debt securities	33,421	47	(4)	33,464
Total short-term investments	1,314,810	4,353	(585)	1,318,578
<b>Long-term investments:</b>				
Available-for-sale:				
Auction rate securities	12,500		(2,274)	10,226
Total long-term investments	12,500		(2,274)	10,226
Total investments	\$ 1,327,310	\$ 4,353	\$ (2,859)	\$ 1,328,804

As of May 2, 2015, the Company's investment portfolio included auction rate securities with an aggregate par value of \$12.5 million classified as long-term investments. Although these securities have continued to pay interest, there is currently limited trading volume. To estimate the fair value of the auction rate securities, the Company uses a discounted cash flow model based on estimated timing and amount of future interest and principal payments. In developing the cash flow model, the Company considers the credit quality and liquidity of the underlying securities and related issuer, the collateralization of underlying security investments and other considerations. The fair value of these auction rate securities as of May 2, 2015 was \$2.4 million less than their par value. Based on the Company's balance of approximately \$2.5 billion in cash, cash equivalents and short-term investments, and the fact that the Company continues to generate positive cash flow from operations on a quarterly basis, the Company does not anticipate having to sell these securities below par value and does not have the intent to sell these auction rate securities until recovery. Since the Company considers the impairment to be temporary, the Company recorded the unrealized loss to accumulated other comprehensive income, a component of shareholders' equity.

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

	Three Months Ended	
	May 2, 2015	May 3, 2014
Gross realized gains	\$ 443	\$ 472
Gross realized losses	(107)	(25)
Total net realized gains	\$ 336	\$ 447

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

May 2, 2015

January 31, 2015

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

	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 372,927	\$ 373,005	\$ 361,108	\$ 361,396
Due between one and five years	1,078,275	1,080,123	950,702	954,151
Due over five years	21,573	19,167	15,500	13,257
	\$ 1,472,775	\$ 1,472,295	\$ 1,327,310	\$ 1,328,804

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

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

	May 2, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt securities	\$ 368,427	\$ (875)	\$ 4,959	\$ (30)	\$ 373,386	\$ (905)
U.S. government and agency debt	80,502	(39)			80,502	(39)
Asset backed securities	27,098	(13)			27,098	(13)
Foreign government and agency debt	11,922	(6)			11,922	(6)
Municipal debt securities	12,341	(27)			12,341	(27)
Auction rate securities			10,111	(2,389)	10,111	(2,389)
<b>Total securities</b>	<b>\$ 500,290</b>	<b>\$ (960)</b>	<b>\$ 15,070</b>	<b>\$ (2,419)</b>	<b>\$ 515,360</b>	<b>\$ (3,379)</b>

	January 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt securities	\$ 243,699	\$ (558)	\$ 2,005	\$ (5)	\$ 245,704	\$ (563)
U.S. government and agency debt	32,165	(7)			32,165	(7)
Asset backed securities	25,053	(9)			25,053	(9)
Foreign government and agency debt	2,999	(2)			2,999	(2)
Municipal debt securities	2,845	(4)			2,845	(4)
Auction rate securities			10,226	(2,274)	10,226	(2,274)
<b>Total securities</b>	<b>\$ 306,761</b>	<b>\$ (580)</b>	<b>\$ 12,231</b>	<b>\$ (2,279)</b>	<b>\$ 318,992</b>	<b>\$ (2,859)</b>

**Note 4. Supplemental Financial Information (in thousands)***Consolidated Balance Sheets*

	May 2, 2015	January 31, 2015
<b>Inventories:</b>		
Work-in-process	\$ 187,249	\$ 183,869
Finished goods	152,610	124,293
 Total inventories	 \$ 339,859	 \$ 308,162





Table of Contents

## MARVELL TECHNOLOGY GROUP LTD.

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

	May 2, 2015	January 31, 2015
<b>Property and equipment, net:</b>		
Machinery and equipment	\$ 610,076	\$ 601,961
Buildings	144,320	144,320
Computer software	101,304	99,312
Land	53,373	53,373
Building improvements	49,800	49,753
Leasehold improvements	51,496	51,434
Furniture and fixtures	28,007	27,883
Construction in progress	2,323	6,167
	1,040,699	1,034,203
Less: Accumulated depreciation and amortization	(714,945)	(693,564)
Total property and equipment, net	\$ 325,754	\$ 340,639

	May 2, 2015	January 31, 2015
<b>Other non-current assets:</b>		
Technology and other licenses	\$ 55,445	\$ 61,217
Deferred tax assets	22,297	22,273
Investments in privately-held companies	9,267	9,267
Prepaid land use rights	13,355	13,432
Deposits	8,144	7,903
Other	14,347	14,747
Total other non-current assets	\$ 122,855	\$ 128,839

	May 2, 2015	January 31, 2015
<b>Accrued liabilities:</b>		
Accrued rebates	\$ 31,685	\$ 39,105
Accrued royalties	22,675	24,680
Technology license obligations	13,677	14,428
Accrued legal expense	6,951	10,027
Other	42,812	43,148
Total accrued liabilities	\$ 117,800	\$ 131,388

	May 2, 2015	January 31, 2015
<b>Other non-current liabilities:</b>		
Technology license obligations	\$ 14,625	\$ 16,468
Long-term accrued employee compensation	4,890	4,610
Other	8,753	11,115

Other non-current liabilities	\$	28,268	\$	32,193
-------------------------------	----	--------	----	--------

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Accumulated other comprehensive income (loss)*

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

	Unrealized Gain (Loss) on Marketable Securities	Unrealized Gain (Loss) on Auction Rate Securities	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balance at January 31, 2015	\$ 3,768	\$ (2,274)	\$ (1,186)	\$ 308
Other comprehensive income before reclassifications	(1,528)	(115)	803	(840)
Amounts reclassified from accumulated other comprehensive income	(332)		944	612
Other comprehensive income (loss)	(1,860)	(115)	1,747	(228)
Balance at May 2, 2015	\$ 1,908	\$ (2,389)	\$ 561	\$ 80

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

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

Affected Line Item in the Statement of Operations	Three Months Ended	
	May 2, 2015	May 3, 2014
Interest and other income, net:		
Available-for-sale securities:		
Marketable securities	\$ 332	\$ 420
Cash flow hedges:		
Research and development	(864)	721
Selling and marketing	(67)	62
General and administrative	(13)	2

Total \$ (612) \$ 1,205

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
<b>Interest and other income, net:</b>		
Interest income	\$ 4,077	\$ 2,609
Realized gain on investments	336	447
Currency translation gain (loss)	407	(1,025)
Other income	567	219
Interest expense	(220)	(325)
	<b>\$ 5,167</b>	<b>\$ 1,925</b>

*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):

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
<b>Numerator:</b>		
Net income	\$ 14,090	\$ 99,479
<b>Denominator:</b>		
Weighted average shares basic	516,228	505,105
<b>Effect of dilutive securities:</b>		
Share-based awards	10,939	15,646
<b>Weighted average shares diluted</b>	<b>527,167</b>	<b>520,751</b>
<b>Net income per share:</b>		
Basic	\$ 0.03	\$ 0.20
Diluted	\$ 0.03	\$ 0.19

Anti-dilutive potential shares are presented in the following table:

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
<b>Weighted average shares outstanding from stock options:</b>		
Time-based options	19,615	19,069

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

Market-based options	2,232	2,384
	21,847	21,453
Weighted average exercise price:		
Time-based options	\$ 17.64	\$ 18.17
Market-based options	\$ 15.43	\$ 15.43
Total	\$ 17.41	\$ 17.86

Anti-dilutive potential shares for stock options are excluded from the calculation of diluted earnings per share for the periods reported above because either their exercise price exceeded the average market price during the period or certain stock options with exercise prices less than the average market price were determined to be anti-dilutive based on applying the treasury stock method.

**Table of Contents****MARVELL TECHNOLOGY GROUP LTD.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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 less than 12 months that mitigate the effect of rate fluctuations on certain local currency denominated operating expenses. All derivative instruments are recorded at fair value in either prepaid expenses and other current assets or accrued liabilities. The Company reports cash flows from derivative instruments in cash flows from operating activities. The Company uses quoted prices to value its derivative instruments.

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

	Buy Contracts	
	May 2, 2015	January 31, 2015
Israeli shekel	\$ 34,984	\$ 51,326

*Cash Flow Hedges.* The Company designates and documents its foreign currency forward exchange contracts as cash flow hedges for certain operating expenses. 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.

The following table provides information about gains (losses) associated with the Company's derivative financial instruments (in thousands):

	Location of Gains (Losses) in Statement of Operations	Amount of Gains (Losses) in Statement of Operations for the three months ended	
		May 2, 2015	May 3, 2014
Derivatives designated as cash flow hedges:			
Forward contracts:	Research and development	\$ (991)	\$ 598
	Selling and marketing	(77)	52
	General and administrative	(14)	2
		\$ (1,082)	\$ 652

The portion of gains excluded from the assessment of hedge effectiveness are included in interest and other income, net, and these amounts were not material in the three months ended May 2, 2015 and May 3, 2014. In addition, realized losses from forward contracts that are not designated as hedging instruments that are included in interest and other income, net, were not material in the three months ended May 2, 2015 and May 3, 2014. The Company also reports hedge ineffectiveness from derivative financial instruments in current earnings, which was not material in the



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

three months ended May 2, 2015 and May 3, 2014. No cash flow hedges were terminated as a result of forecasted transactions that did not occur.

**Table of Contents**

**MARVELL TECHNOLOGY GROUP LTD.**

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

**Note 6. Fair Value Measurements**

Fair value is an exit price representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

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

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

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

The Company's Level 1 assets include institutional money-market funds that are classified as cash equivalents and marketable investments in U.S. government and agency debt, which are valued primarily using quoted market prices. The Company's Level 2 assets include its marketable investments in time deposits, corporate debt securities, foreign government and agency debt, municipal debt securities and asset backed securities as the market inputs to value these instruments consist of market yields, reported trades and broker/dealer quotes, which are corroborated with observable market data. In addition, forward contracts, and the severance pay fund are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments. The Company's Level 3 assets include its investments in auction rate securities, which are classified within Level 3 because there are currently no active markets for the auction rate 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 Company's Level 3 assets also include corporate equipment which it acquired through an early buyout option under an operating lease (see Note 8 Restructuring in the Notes to the Unaudited Condensed Consolidated Financial Statements) since it is valued based on market prices of similar assets in a limited market. The total amount of assets measured using Level 3 valuation methodologies represented 0.2% of total assets as of May 2, 2015.

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

The tables below set forth, by level, the Company's financial assets that were accounted for at fair value as of May 2, 2015 and January 31, 2015. The tables do not include assets and liabilities that are measured at historical cost or any basis other than fair value (in thousands):

	Fair Value Measurements at May 2, 2015			
	Level 1	Level 2	Level 3	Total
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
U.S. government and agency debt	\$ 1,000	\$	\$	\$ 1,000
Money market funds	875			875
Time deposits		183,468		183,468
Corporate debt securities		20,004		20,004
Short-term investments:				
U.S. government and agency debt	269,985			269,985
Corporate debt securities		1,038,232		1,038,232
Asset backed securities		100,488		100,488
Foreign government and agency debt		16,964		16,964
Municipal debt securities		36,515		36,515
Prepaid expenses and other current assets:				
Foreign currency forward contracts		702		702
Long-term investments:				
Auction rate securities			10,111	10,111
Other non-current assets:				
Severance pay fund		1,842		1,842
Total assets	\$ 271,860	\$ 1,398,215	\$ 10,111	\$ 1,680,186
Liabilities				
Accrued liabilities:				
Foreign currency forward contracts	\$	\$ 193	\$	\$ 193

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

	Fair Value Measurements at January 31, 2015			
	Level 1	Level 2	Level 3	Total
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
Money market funds	\$ 111,286	\$	\$	\$ 111,286
Time deposits		213,012		213,012
Corporate debt securities		21,999		21,999
Short-term investments:				
U.S. government and agency debt	179,156			179,156
Corporate debt securities		986,317		986,317
Asset backed securities		91,531		91,531
Foreign government and agency debt		28,110		28,110
Municipal debt securities		33,464		33,464
Prepaid expenses and other current assets:				
Foreign currency forward contracts		124		124
Long-term investments:				
Auction rate securities			10,226	10,226
Other non-current assets:				
Severance pay fund		1,758		1,758
<b>Total assets</b>	<b>\$ 290,442</b>	<b>\$ 1,376,315</b>	<b>\$ 10,226</b>	<b>\$ 1,676,983</b>
Liabilities				
Accrued liabilities:				
Foreign currency forward contracts	\$	\$ 1,379	\$	\$ 1,379

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

	Three Months Ended	
	May 2, 2015	May 3, 2014
Beginning balance	\$ 10,226	\$ 16,279
Sales and redemptions		(3,000)
Unrealized losses included in accumulated other comprehensive income	(115)	177
Ending balance	\$ 10,111	\$ 13,456

Assets measured and recorded at fair value on a non-recurring basis include corporate equipment classified as held for sale, which had a fair value of \$10.2 million as of May 2, 2015 (see Note 8 Restructuring in the Notes to the Unaudited Condensed Consolidated Financial Statements).

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

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

	Range of Useful Lives	Gross Carrying Amounts	May 2, 2015 Accumulated Amortization and Write-Offs	Net Carrying Amount	Gross Carrying Amounts	January 31, 2015 Accumulated Amortization and Write-Offs	Net Carrying Amount
Purchased technology	4 - 7 years	\$ 35,498	\$ (17,240)	\$ 18,258	\$ 35,498	\$ (15,684)	\$ 19,814
Core technology	5 - 8 years	850	(465)	385	850	(423)	427
Trade names	5 years	1,300	(893)	407	1,300	(828)	472
Customer intangibles	5 - 7 years	28,600	(20,005)	8,595	28,600	(18,615)	9,985
<b>Total intangible assets, net</b>		<b>\$ 66,248</b>	<b>\$ (38,603)</b>	<b>\$ 27,645</b>	<b>\$ 66,248</b>	<b>\$ (35,550)</b>	<b>\$ 30,698</b>

Based on the identified intangible assets recorded at May 2, 2015, the future amortization expense for the next five fiscal years is as follows (in thousands):

Fiscal Year	
Remainder of fiscal 2016	\$ 9,159
2017	11,027
2018	5,599
2019	1,860
2020	
	<b>\$ 27,645</b>

**Note 8. Restructuring**

In March 2015, the Company exercised the early buyout option under an operating lease for corporate equipment that it had planned to sell as part of a cost reduction action. The Company is actively seeking a buyer and has classified the equipment as held for sale included in prepaid and current assets on the condensed consolidated balance sheet. As a result, the Company ceased depreciation on these assets and now measures the carrying value at the lower of net book value or fair value (less cost to sell). As of May 2, 2015, since the fair value of the equipment was lower than its net book value, the Company recorded an impairment charge of \$0.5 million resulting in a carrying value of \$10.2 million. During the three months ended May 2, 2015, the Company also continued to make payments and incur ongoing operating expenses related to vacated facilities under previous restructure actions.

The following table presents detail of the related restructuring charges recorded by the Company (in thousands):

Three Months Ended	
May 2, 2015	May 3, 2014

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

Severance and related costs	\$	\$ 4,617
Facilities and related costs	19	444
Other exit-related costs		10
	19	5,071
Impairment loss and write-off of assets:		
Equipment	573	17
Acquired intangible asset		3,386
	\$ 592	\$ 8,474

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

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Research and development	\$	\$ 4,682
Selling and marketing		48
General and administrative	592	358
Write-off of acquired intangible assets		3,386
	\$ 592	\$ 8,474

The following table sets forth a reconciliation of the beginning and ending restructuring liability balances by each major type of costs associated with the restructuring charges (in thousands):

	<b>Facilities and Related Costs</b>	<b>Other Exit-Related Costs</b>	<b>Total</b>
Balance at January 31, 2015	\$ 1,339	\$ 3,230	\$ 4,569
Restructuring charges	19		19
Net cash payments	(312)	(3,230)	(3,542)
Balance at May 2, 2015	\$ 1,046	\$	\$ 1,046

The balance at May 2, 2015 for facility and related costs includes remaining payments under lease obligations related to vacated space that are expected to be paid through fiscal 2018.

**Note 9. Income Tax**

The income tax provision for the three months ended May 2, 2015 included the current income tax liability of \$4.3 million, plus an additional provision of \$3.1 million related to a \$15.4 million cash payment to the Company's Chief Executive Officer (see Note 13 Related Party Transactions in the Notes to the Unaudited Condensed Consolidated Financial Statements), which were offset by a net reduction in unrecognized tax benefits of \$3.1 million. The net reduction in unrecognized tax benefits arose from the release of \$4.0 million due to expiration of the statute of limitations in a non-U.S. jurisdiction, which was partially offset by penalties and interest of \$0.9 million accrued on the outstanding unrecognized tax benefit balance.

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

It is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to foreign currencies within the next 12 months. Excluding these

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

factors, uncertain tax positions may decrease by as much as \$11 million from the lapse of statutes of limitation in various jurisdictions during the next 12 months. Government tax authorities from several non-U.S. jurisdictions are also examining returns. The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to its tax audits and that any settlement will not have a material effect on its results at this time.

The Company operates under tax incentives in certain countries, which may be extended if certain additional requirements are satisfied. The tax incentives are conditional upon meeting certain employment and investment thresholds. The impact of these tax incentives decreased foreign taxes by \$3.3 million in each of the three months ended May 2, 2015 and May 3, 2014. The benefit of the tax incentives on net income per share was \$0.01 per share for the three months ended May 2, 2015 and less than \$0.01 per share for the three months ended May 3, 2014.



---

**Table of Contents**

**MARVELL TECHNOLOGY GROUP LTD.**

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

The Company's principal source of liquidity as of May 2, 2015 consisted of approximately \$2.5 billion of cash, cash equivalents and short-term investments, of which approximately \$900 million was held by foreign subsidiaries (outside Bermuda). Approximately \$500 million of this amount held by foreign subsidiaries is related to undistributed earnings, which have been indefinitely reinvested outside of Bermuda. These funds are primarily held in China, Israel, the United States and Switzerland. The Company plans to use such amounts to fund various activities outside of Bermuda including working capital requirements, capital expenditures for expansion, funding of future acquisitions, or other financing activities. If such funds were needed by the parent company in Bermuda or if the amounts were otherwise no longer considered indefinitely reinvested, the Company would incur a tax expense of approximately \$150 million.

**Note 10. Commitments and Contingencies**

***Purchase Commitments***

Under the Company's manufacturing relationships with its foundry partners, cancellation of all outstanding purchase orders are allowed but require payment of all costs and expenses incurred through the date of cancellation. As of May 2, 2015, these foundries had incurred approximately \$212.9 million of manufacturing costs and expenses relating to the Company's outstanding purchase orders.

***Intellectual Property Indemnification***

The Company has agreed to indemnify certain customers for claims made against the Company's products, where such claims allege infringement of third party intellectual property rights, including, but not limited to, patents, registered trademarks, and/or copyrights. Under the aforementioned indemnification clauses, the Company may be obligated to defend the customer and pay for the damages awarded against the customer under an infringement claim as well as the attorneys' fees and costs. The Company's indemnification obligations generally do not expire after termination or expiration of the agreement containing the indemnification obligation. Generally, there are limits on and exceptions to the Company's potential liability for indemnification. 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***

The Company and certain of its subsidiaries are currently parties to various legal proceedings, including those noted in this section. The legal proceedings and claims described below could result in substantial costs and could divert the attention and resources of the Company's management. The Company is also engaged in other legal proceedings and claims not described below, which arise in the ordinary course of its business. Litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling in litigation could require the Company to pay damages, one-time license fees or ongoing royalty payments, and could prevent the Company from manufacturing or selling some of its products or limit or restrict the type of work that employees involved in such litigation may perform for the Company, any of which could adversely affect financial results in future periods. The Company believes that its products do not infringe valid and enforceable claims and it will continue to conduct a vigorous defense in these proceedings. However, there can be no assurance that these matters will be resolved in a manner that is not adverse to the Company's business, financial condition, results of operations or cash flows.

As of May 2, 2015, the Company had no accrued liability related to certain legal proceedings described below in this section. Additionally, the Company has not recorded any amounts for contingent losses associated with the matters described below based on its belief that losses, while reasonably possible, are not probable. Unless otherwise stated, the Company is currently unable to predict the final outcome of these lawsuits and therefore cannot determine the likelihood of loss nor estimate a range of possible loss.

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

*Carnegie Mellon University Litigation.* On March 6, 2009, CMU filed a complaint in the U.S. District Court for the Western District of Pennsylvania naming Marvell Semiconductor, Inc. ( MSI ) and the Company as defendants and alleging patent infringement. CMU has asserted U.S. Patent Nos. 6,201,839 and 6,438,180 (collectively, the CMU patents in suit ), which relate to read-channel integrated circuit devices and the hard disk drive ( HDD ) incorporating such devices. A jury trial began on November 26, 2012. On December 26, 2012, a jury delivered a verdict that found the CMU patents in suit were literally and willfully infringed and valid, and awarded past damages in the amount of \$1.17 billion. CMU sought in its post-trial motions enhanced damages up to three times the jury verdict, pre-judgment interest up to \$322 million, post-judgment interest, supplemental damages, attorneys' fees, and an injunction and/or ongoing royalties. Post-trial motions were heard on May 1 and 2, 2013. On June 26, 2013, the District Court denied CMU's post-trial motion for attorney fees without prejudice. On August 23, 2013, the District Court denied the Company's motion for mistrial. On September 23, 2013, the District Court denied the Company's motion for judgment as a matter of law or a new trial on non-infringement, invalidity and other non-damages issue as well as the Company's motion for reduced damages. On the same day, the District Court granted-in-part CMU's motion for a finding of willful infringement and enhanced damages, reserving its further rulings on any enhancement of the verdict for a separate opinion. On December 6, 2013, CMU filed a motion to permit registration of judgment and a motion for supplemental relief including a request to enjoin future share repurchases, any leveraged buyout or similar asset leveraging transaction, and dividends, in the absence of a court approved bond or other security. On December 23, 2013, the District Court denied the motions. On January 8, 2014, CMU filed a motion for telephonic status conference, which was denied on January 28, 2014. On January 14, 2014, the District Court denied the Company's post-trial motion on laches. On March 31, 2014, the District Court rejected CMU's motion for an injunction. The District Court also denied CMU's request for pre-judgment interest, and substantially scaled back CMU's request for enhanced damages. Based on these decisions, the District Court calculated the damages including enhancement to total approximately \$1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. On May 7, 2014, the District Court entered final judgment, from which the Company filed a notice of appeal on May 14, 2014. The Company filed its opening appeal brief on August 4, 2014. CMU filed its opposition brief on October 20, 2014 and the Company filed its reply brief on November 20, 2014. The District Court has required the Company to report ongoing royalties under the current judgment. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through May 2, 2015 could be as much as \$450 million. The Company has secured certain surety bonds for the duration of the appeal to stay execution of judgment pending the appeal. See Surety Bonds.

The Company and MSI believe that the evidence and the law do not support the jury's findings of infringement, validity and the award of damages and do not believe a material loss is probable. The Company believes that there are strong grounds for appeal and the Company and MSI are currently pursuing an appeal before the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. which held a hearing for oral argument on April 7, 2015. The Company believes the low end of the possible range of loss is zero, but it cannot reasonably estimate the upper range of the possible loss, as a number of factors could significantly change the assessment of damages.

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

On May 4, 2010, MSI filed a motion to intervene in the USEI litigation, which was granted on May 19, 2010. On July 13, 2010, the District Court issued an order granting the defendants' motion to transfer the action to the U.S. District Court for the Northern District of California; the case was formally transferred on August 23, 2010. On September 14, 2011, USEI withdrew its allegations against MSI for the 459 patent. The District Court issued a first claim construction ruling on January 31, 2012 and a supplemental claim construction ruling on August 29, 2012. On August 16, 2013, the District Court granted defendants' summary judgment motion to preclude the plaintiff from recovering certain pre-suit damages. On November 7, 2014, on summary judgment, the District Court found that all the patents-in-suit were either invalid or not infringed. On December 1, 2014, the District Court entered a judgment in favor of defendants and awarded defendants' costs. On December 29, 2014, USEI filed a motion to alter or amend the District Court's summary judgment order, which the District Court denied on March 31, 2015. On April 24, 2015, USEI filed its notice of appeal.

*Azure Networks Litigation.* On March 22, 2011, Azure Networks, LLC ( Azure ) and Tri-County Excelsior Foundation filed suit in the U.S. District Court for the Eastern District of Texas against MSI and eight other companies. The Complaint asserts U.S. Patent No. 7,756,129 against MSI's Bluetooth products. MSI filed its answer and counterclaims on July 20, 2011. On November 2, 2012, MSI and the other defendants filed a motion for summary judgment of invalidity, which was denied. A claim construction hearing was held on December 20, 2012. On January 15,

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

2013, the magistrate judge issued a claim construction ruling. On May 20, 2013, the District Court issued an order denying plaintiff's motion for reconsideration and adopted the magistrate judge's claim construction ruling. On May 30, 2013, the District Court entered a judgment of non-infringement. On June 24, 2013, Azure appealed. On November 6, 2014, the Federal Circuit issued an order vacating the judgment of non-infringement and remanding for further proceedings. MSI filed a petition for writ of certiorari to the United States Supreme Court on February 4, 2015. On February 10, 2015, the District Court stayed all proceedings pending the Supreme Court's ruling on the Company's petition. On April 20, 2015, the United States Supreme Court granted MSI's petition, vacating the Federal Circuit's judgment and remanding the case for further consideration.

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

On January 13, 2015, Azure filed a second suit against MSI in the U.S. District Court for the Eastern District of Texas, alleging infringement of U.S. Patent Nos. 8,582,570; 8,582,571; 8,588,196; 8,588,231; 8,589,599; 8,675,590; 8,683,092; 8,700,815; 8,732,347; and 8,732,361, purportedly related to certain Wi-Fi and near field communication ( NFC ) technologies. The complaint seeks unspecified damages. On April 6, 2015, MSI filed an amended answer and counterclaims.

*France Telecom Litigation.* On June 26, 2012, France Telecom S.A. filed a complaint against MSI in the U.S. District Court for the Southern District of New York. The complaint asserts U.S. Patent No. 5,446,747 against MSI's communications processors and thin modems. The complaint seeks unspecified damages as well as injunctive relief. MSI answered the complaint on July 18, 2012 and August 1, 2012. On July 30, 2012, MSI filed a motion to transfer the lawsuit to the U.S. District Court for the Northern District of California. On September 17, 2012, the Court granted MSI's motion and transferred the case to the Northern District of California. A claim construction hearing was held on December 13, 2013. On April 14, 2014, the Court denied MSI's motion for summary judgment of invalidity, and granted MSI's summary judgment motion concerning certain damages preclusion. A jury trial began on September 17, 2014. On September 30, 2014, a jury delivered a verdict that found the patent in suit was literally, but not willfully, infringed and valid, and awarded damages. The award did not have a significant impact on the Company's financial statements. A hearing for post-trial motions and non-jury issues took place on January 14, 2015. On March 2, 2015, the District Court issued an order on post-trial briefs finding no direct infringement by Marvell as a matter of law and entered judgment in favor of Marvell. On March 30, 2015, France Telecom filed a notice of appeal. On April 10, 2015, MSI filed a notice of cross appeal.

*Vantage Point Technology Patent Litigation.* On November 21, 2013, Vantage Point Technology, Inc. ( VPT ) filed suit against a third-party defendant in the U.S. District Court for the Eastern District of Texas for patent infringement relating to processor technology. On February 3, 2014, VPT filed an amended complaint against the third party and added MSI as an additional defendant. The complaint seeks unspecified damages. On December 8, 2014, the case was transferred to the U.S. District Court for the Northern District of California. The case was dismissed with prejudice in March, 2015.

*Bandspeed Litigation.* On May 9, 2014, Bandspeed, Inc. filed suit against MSI in the U.S. District Court for the Western District of Texas, alleging infringement of U.S. Patent Nos. 7,027,418; 7,570,614; 7,477,624; 7,903,608; and 8,542,643, purportedly related to certain Bluetooth technology. The complaint seeks unspecified damages. On February 13, 2015, Bandspeed amended its complaint and added allegations of infringement of U.S. Patent No. 8,873,500. On April 29, 2015, the parties filed a joint motion to dismiss the case with prejudice. The case was dismissed with prejudice on May 7, 2015.

*NXP Litigation.* On January 22, 2015, NXP Semiconductors N.V. filed suit against MSI in the U.S. District Court for the Northern District of California, alleging infringement of U.S. Patent Nos. 5,939,791; 7,039,133; 8,185,050; and 8,203,432, purportedly related to certain NFC technology. The complaint seeks unspecified damages. MSI filed its response and counterclaims on February 26, 2015. Marvell International Limited ( MIL ) also filed counterclaims against NXP Semiconductors U.S.A. ( NXP USA ), alleging infringement of U.S. Patent Nos. 7,047,393; 7,555,065; and 7,302,600. On February 2, 2015, MIL filed suit against NXP USA in the U.S. District Court for the Central District of California, alleging patent infringement of U.S. Patent Nos. 8,171,309; 7,957,777; 7,454,634; and 6,903,448, related to certain NFC and automotive technologies. On April 15, 2015, the parties filed stipulations to dismiss without prejudice their claims and counterclaims in both cases.

*Paone Litigation.* On February 6, 2015, Luciano F. Paone filed suit against MSI in the U.S. District Court for the Eastern District of New York, alleging infringement of U.S. Patent No. 6,259,789, purportedly related to certain encryption technology. The complaint seeks unspecified damages. MSI filed its response on May 22, 2015.

*Innovatio Litigation.* On March 16, 2015, Innovatio IP Ventures, LLC filed suit against MSI in the U.S. District Court for the Northern District of Illinois, alleging infringement of U.S. Patent Nos. 6,697,415; 5,844,893; 5,740,366; 7,916,747; 6,665,536; 7,013,138; 7,107,052; 5,546,397; 7,710,907; 7,710,935; 6,714,559; 7,457,646; and 6,374,311, purportedly related to certain wireless technology. The complaint seeks unspecified damages.

*Visual Memory Litigation.* On May 8, 2015, Visual Memory LLC ( Visual Memory ) filed suit against MSI in the District of Delaware, alleging infringement of U.S. Patent Nos. 5,654,932 and 6,026,027, purportedly related to certain memory technology. The complaint seeks unspecified damages.

***Surety Bonds***

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

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

The Court has required the Company to report ongoing royalties under the current judgment. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through May 2, 2015 could be as much as \$450 million. On November 14, 2014, the Company filed a second surety bond for \$216 million and filed a commitment letter from the sureties to issue up to an additional \$95 million in bonding under certain conditions. The second bond and commitment are secured by the Company's campus located in Santa Clara, California, which has a carrying value of \$138 million at May 2, 2015. The Company and CMU have agreed that the second bond and commitment satisfy the security for ongoing royalties while the appeal is pending.

*Indemnities, Commitments and Guarantees*

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

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

Stock option activity under the Company's stock option and stock incentive plans is included in the following table (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 31, 2015	47,140	\$ 13.79	2,232	\$ 15.43	49,372	\$ 13.88
Granted	80	\$ 16.13		\$	80	\$ 16.13
Exercised	(1,243)	\$ 10.47		\$	(1,243)	\$ 10.47
Canceled/Forfeited	(2,486)	\$ 17.80	(8)	\$ 15.43	(2,494)	\$ 17.80
Balance at May 2, 2015	43,491	\$ 13.66	2,224	\$ 15.43	45,715	\$ 13.75
Vested or expected to vest at May 2, 2015	41,184	\$ 13.70				
Exercisable at May 2, 2015	25,511	\$ 14.39				

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

For time-based stock options vested and expected to vest at May 2, 2015, the aggregate intrinsic value was \$86.8 million and the weighted average remaining contractual term was 5.9 years. For time-based stock options exercisable at May 2, 2015, the aggregate intrinsic value was \$53.4 million and the weighted average remaining contractual term was 4.5 years. The aggregate intrinsic value of stock options exercised during the three months ended May 2, 2015 and May 3, 2014 was \$6.3 million and \$9.4 million, respectively. There was no aggregate intrinsic value for market-based stock options at May 2, 2015 and the weighted average remaining contractual term of market-based stock options expected to reach the end of the vesting period at May 2, 2015 was 6.0 years. The Company's closing stock price of \$14.30 as reported on the NASDAQ Global Select Market for all in-the-money options as of May 1, 2015 was used to calculate the aggregate intrinsic value.

As of May 2, 2015, the unamortized compensation expense for time-based stock options was \$46.6 million and market-based stock options were fully amortized in fiscal 2015. The unamortized compensation expense for time-based stock options will be amortized on a straight-line basis and is expected to be recognized over a weighted average period of 2.2 years.

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

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

	Time-Based		Performance-Based		Market-Based		Total	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Balance at January 31, 2015	9,748	\$ 14.84	1,254	\$ 14.99			11,002	\$ 14.85
Granted	4,742	\$ 13.67	669	\$ 14.28	407	\$ 12.24	5,818	\$ 13.64
Vested	(4,333)	\$ 15.39	(658)	\$ 15.15			(4,991)	\$ 15.36
Canceled/Forfeited	(146)	\$ 14.09	(79)	\$ 14.32			(225)	\$ 14.17
Balance at May 2, 2015	10,011	\$ 14.06	1,186	\$ 14.54	407	\$ 12.24	11,604	\$ 14.04

In connection with the performance-based equity awards granted in fiscal 2015 to each of the Company's executive officers, a total of 478,001 shares vested on April 1, 2015 in connection with the first performance period completed at the end of fiscal 2015. Of this amount, an additional 107,954 shares are included as granted in the table above for the three months ended May 2, 2015 since each executive officer achieved greater than their target shares for one of the financial performance goals. The amount of canceled shares reported in the table above includes the portion of unvested shares that were not earned since performance achievements on each executive officer's other financial and strategic performance goals were not fully achieved. As of May 2, 2015, the Company determined the performance goals established for the second performance period to be completed at the end of fiscal 2016 would not be achieved and adjusted the related share-based compensation expense accordingly for the three months ended May 2, 2015.

In April 2015, the Company granted performance-based equity awards to each of its executive officers which are based on their achievement of certain performance goals for a new performance period beginning in fiscal 2016. These equity awards include restricted stock units which vest based on the achievement of certain financial goals ( Financial Performance RSU ), and performance awards for which a portion shall vest based on the achievement of individual strategic objectives ( Strategic Objective Award ) and a portion shall vest based on total shareholder return ( Total Shareholder Return Award ). These awards are reported in the above table as Performance-Based, except for the Total Shareholder Return Award which is reported as Market-Based. The Financial Performance RSUs will be earned based on the achievement of revenue and modified non-GAAP operating income that have been established at threshold, target and maximum levels and will vest on the first anniversary of the commencement date. The Strategic Objective Award will vest on the first anniversary of the commencement date at the target level based on the achievement of individual strategic goals and either the revenue or modified non-GAAP operating income objective established for the Financial Performance RSU. The Total Shareholder Return Award will vest on the second anniversary of the commencement date based the Company's stock price performance in comparison to the Philadelphia Semiconductor Sector Index. Share-based compensation for the Total Shareholder Award is measured using the Monte Carlo valuation method since the award is indexed to the price of the Company's common stock as set forth under the terms of the award.

In connection with the performance-based restricted stock units granted in fiscal 2015 to certain members of senior management, final evaluation for each individual's achievement of their performance was measured during the three months ended May 2, 2015. As a result, a total of 360,723 shares vested on April 1, 2015 and are included in the above table. There was no material adjustment to share-based compensation expense related to these performance-based restricted stock units in the three months ended May 2, 2015. The amount of canceled shares reported in the table above includes the portion of unvested shares that were not earned since certain performance achievements were not fully achieved.

The aggregate intrinsic value of restricted stock units expected to vest as of May 2, 2015 was \$150.2 million. The number of restricted stock units that are expected to vest is 10.5 million shares.



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

As of May 2, 2015, unamortized compensation expense related to restricted stock units was \$134.0 million. The unamortized compensation expense for restricted stock units will be amortized on a straight-line basis and is expected to be recognized over a weighted average period of 1.7 years.

### ***Employee Stock Purchase Plan***

During the three months ended May 2, 2015 and May 3, 2014, the Company issued no shares under the 2000 Employee Stock Purchase Plan, as amended and restated (the ESPP ). As of May 2, 2015, there was \$33.7 million of unrecognized compensation cost related to the ESPP.

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

The Company repurchased 1.4 million of its common shares for \$22.1 million during the three months ended May 2, 2015. The Company had no repurchases of its common shares during the three months ended May 3, 2014. The repurchased shares were retired immediately after the repurchases were completed. The Company records all repurchases, as well as investment purchases and sales, based on trade date. As of May 2, 2015, a total of 223.3 million cumulative shares have been repurchased under the Company's share repurchase program for a total \$2.8 billion in cash and there was \$421.4 million remaining available for future share repurchases.

Subsequent to the end of the quarter through May 28, 2015, the Company repurchased an additional 0.9 million of its common shares for \$12.9 million at an average price per share of \$13.84.

**Dividends**

The Company paid the following cash dividends:

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Cash dividend per share	\$ 0.06	\$ 0.06
Total payment to shareholders (in thousands)	\$ 30,910	\$ 30,172

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

On May 21, 2015, the Company announced that its board of directors declared a cash dividend of \$0.06 per share to be paid on July 1, 2015 to shareholders of record as of June 11, 2015.

**Note 12. Share-Based Compensation**

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Cost of goods sold	\$ 1,547	\$ 2,299
Research and development	24,781	20,368
Selling and marketing	2,577	2,928
General and administrative	4,316	4,374
	<b>\$ 33,221</b>	<b>\$ 29,969</b>

Share-based compensation capitalized in inventory was \$1.9 million at May 2, 2015 and \$1.5 million at January 31, 2015.

**Table of Contents****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:

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
<b>Time-based Stock Options:</b>		
Weighted average fair value	\$ 4.54	\$ 4.64
Expected volatility	34%	36%
Expected term (in years)	5.4	5.0
Risk-free interest rate	1.5%	1.6%
Expected dividend yield	1.6%	1.6%

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	
<b>Total Shareholder Return Awards:</b>		
Expected term (in years)	2.0	
Expected volatility	27%	
Average correlation coefficient of peer companies	0.4%	
Risk-free interest rate	0.5%	
Expected dividend yield	1.7%	

Under the ESPP, there were no stock purchase rights granted in the three months ended May 2, 2015 and May 3, 2014.

**Note 13. Related Party Transaction**

On February 25, 2015, the Executive Compensation Committee ( Committee ) of the Company s Board of Directors approved a cash payment of approximately \$15.4 million to Dr. Sehat Sutardja, the Company s Chief Executive Officer which was recorded in general and administrative expense in the three months ended May 2, 2015. The U.S. Court of Federal Claims ruled against Dr. Sutardja in his legal challenge with the Internal Revenue Service and the California Franchise Tax Board related to the tax treatment of several stock options granted in fiscal 2004. After discussing and evaluating the alternatives to a continuing legal challenge of the court s determination, the likelihood of success of further appeal by Dr. Sutardja and the potential negative impact on the Company of a continuation of the case regardless of the outcome, on February 25, 2015, the Committee determined to provide Dr. Sutardja with relief from the financial effects of the penalty taxes. Accordingly, the Committee approved the cash payment to Dr. Sutardja equal to the amount of his penalty taxes owed under the Tax Codes, plus accrued interest owed with respect to such liabilities, all grossed-up for income taxes that will be owed by Dr. Sutardja on receipt of such cash payment. The Company paid \$8.4 million to Dr. Sutardja in the three months ended May 2, 2015 representing reimbursement for the U.S. federal tax portion. As of May 2, 2015, the Company had a remaining \$7.0 million liability to Dr. Sutardja.

**Table of Contents**

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

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are subject to the safe harbor created by those sections. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results to differ materially from those implied by the forward-looking statements. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, can, will and similar expressions identify such forward-looking statements. Examples of forward-looking statements include statements regarding:*

*revenue outlook for the second quarter of 2016 and for our products by end market;*

*our anticipation that the rate of new orders and shipments will vary significantly from quarter to quarter;*

*market acceptance of our products;*

*our expectations about industry trends;*

*future growth of our customer's products, including the timing of any launches;*

*the pricing of our products;*

*future customer concentration;*

*net revenue, cost of goods sold as a percentage of revenue and operating expenses for future periods;*

*the impact of legal proceedings and claims, including on the protection of our intellectual property;*

*our ability to meet our capital needs for at least the next 12 months;*

*our expectation that a significant percentage of our sales will continue to come from direct sales to key customers;*

*future growth opportunities;*

*our expectations regarding areas of revenue and operating income growth;*

*the effectiveness of our hedges of foreign currency exposures;*

*our plans regarding our investment portfolio;*

*our expectations that quarterly operating results will fluctuate from quarter to quarter;*

*general economic environment;*

*arrangements with suppliers;*

*our expectations regarding our facilities and the sufficiency of our facilities;*

*our ability to execute our business strategy;*

*our plan to strengthen and expand our relationship with customers;*

*our ability to anticipate the needs of our customers;*

*our expectations that average selling prices of our products will continue to be subject to significant pricing pressures;*

*our ability to develop and introduce new products and achieve market acceptance of our products;*

*our expectations regarding acquisitions and investments;*

*demand for our products and the impact of seasonality on demand;*

*gross margin and the events that may cause gross margin to fluctuate;*

**Table of Contents**

*our operations and sales outside of the United States, including future sales in Asia;*

*our plans for our share repurchase program and dividends;*

*expected tax benefits we receive; and*

*the anticipated features and benefits of our technology solutions.*

*These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. Factors that could cause actual results to differ materially from those predicted, include, but are not limited to:*

*our dependence upon the hard disk drive and mobile and wireless markets, which are highly cyclical and intensely competitive;*

*the outcome of pending or future litigation and legal proceedings, including our patent litigation action involving Carnegie Mellon University;*

*our dependence on a small number of customers;*

*our ability and the ability of our customers to successfully compete in the markets in which we serve;*

*our reliance on independent foundries and subcontractors for the manufacture, assembly and testing of our products;*

*our ability and our customers' ability to develop new and enhanced products and the adoption of those products in the market;*

*decreases in our gross margin and results of operations in the future due to a number of factors;*

*our ability to estimate customer demand and future sales accurately, including the impact of lengthy and expensive product sales cycles;*

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

*the impact of international conflict and continued economic volatility in either domestic or foreign markets;*

*the effects of transitioning to smaller geometry process technologies;*

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

*the risks associated with manufacturing and selling a majority of our products and our customers' products outside of the United States;*

*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 effects of any potential acquisitions or investments;*

*our ability to protect our intellectual property;*

*the impact and costs associated with changes in international financial and regulatory conditions; and*

*our maintenance of an effective system of internal controls.*

*Additional factors which could cause actual results to differ materially include those set forth in the following discussion, as well as the risks discussed in Part II, Item 1A, Risk Factors, and other sections of this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date hereof. Unless required by law, we undertake no obligation to update any forward-looking statements.*

### **Overview**

We are a fabless semiconductor provider of high-performance application-specific standard products. Our core strength of expertise is the development of complex System-on-a-Chip ( SoC ) and System-in-a-Package ( SiP ) devices, leveraging our extensive technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing, and embedded and standalone integrated circuits. The majority of our product portfolio leverages the ARM technology portfolio. We also develop platforms that we define as integrated hardware along with software that incorporates digital computing technologies designed and configured to provide an optimized computing solution. Our broad product portfolio includes devices for data storage, enterprise-class Ethernet data switching, Ethernet physical-layer transceivers ( PHY ), mobile handsets, connectivity, Internet-of-Things ( IoT ) devices and other consumer electronics. We were incorporated in Bermuda in January 1995.



## Table of Contents

During the first quarter of fiscal 2016, we experienced an overall slowdown in demand from the storage end market, as well as from emerging markets, as we saw business conditions weaken overall in the semiconductor industry. As a result, net revenue in the three months ended May 2, 2015 of \$724.3 million was down 24% compared to net revenue of \$957.8 million in the three months ended May 3, 2014. Revenue from products for the storage end market declined 16% in the three months ended May 2, 2015 compared to the three months ended May 3, 2014. In addition, we saw lower revenue from products for the mobile and wireless end markets, which declined 44% in the three months ended May 2, 2015 compared to the three months ended May 3, 2014. Consequently, net income in the three months ended May 2, 2015 was lower at \$14.1 million compared to \$99.5 million in the three months ended May 3, 2014. Although we expect this slower demand environment to continue in our second quarter of fiscal 2016, we expect higher revenue in the second half of fiscal 2015 as demand begins to normalize. We continue to invest in new and innovative technologies as we believe this will enable us to emerge even stronger when the economic situation improves. We are also focused on effectively controlling our costs, which has led to improvement in cost of goods sold as a percentage of revenue, and improvement in total operating expenses. We expect revenue growth to be driven by areas such as mobile handsets, tablets, connectivity and smart home devices along with a continued focus on operational execution.

In the storage market, we saw weaker than expected demand for HDD products. We continue to maintain our technology leadership and focus on developing industry-leading solutions such as DRAM-less NVMe products, which we expect will do well in the market. For our SSD products, the slowdown in demand was in-line with seasonality that typically affects our first fiscal quarter. Despite the drop in market share of one of our major customers, we are working to solidify our leadership position in the market over the next few years.

In the mobile market, competition and pricing remain fierce, and negatively affected our operating result in the first quarter of fiscal 2016. We saw weaker than normal demand due to an overall slowdown in smartphone production in China. In our business for the mobile end market, China Unicom recently launched the world's first 399RMB 4G LTE smartphone using our quad-core 64-bit ARMADA Mobile PXA1908 mobile platform which is also used by China Mobile. This same 64-bit LTE platform has started shipping into global markets with tier-1 customers such as Samsung.

In the wireless connectivity market, revenue was lower than expectations primarily due to weaker mobile shipments in China combined with normal seasonality in gaming consoles. Earlier this year, we introduced the 4x4 11ac Wave-2 Wi-Fi and SoC platform for enterprise access point and smart home gateway solutions. The Wave-2 significantly increases bandwidth available over the Wi-Fi link and network capacity for densely populated environments, extending wireless capabilities to a variety of new use cases such as real-time video streaming and wireless back-up. Our 4x4 11ac devices have been growing our market share in carrier grade access point, supporting tier-1 customers like Cisco Systems, Inc. More recently, Linksys announced the launch of their newest 2x2 AC router using our mainstream Wi-Fi technology. We believe we are well positioned to further expand into high-performance 4x4 MIMO product categories in both retail and service provider gateways. We are seeing new opportunities for our connectivity solutions across multiple market segments.

In the fast-growing IoT end market, Wi-Fi and Zigbee devices are gaining strong adoption. Our EZ-Connect wireless microcontrollers have been well received and we have a strong design pipeline across a broad range of applications including lighting, appliances, home automation and other smart home and commercial IoT applications across China and North American regions. For example, Xiaomi launched a line of smart home products in the fall of 2014 based on our wireless microcontrollers. We are also an early partner in Apple's HomeKit and we have several tier-1 customers designing HomeKit products using our EZ-Connect microcontrollers. Recently, we announced the open-sourcing of our Kinoma JS application framework, which is uniquely designed to build core applications of embedded devices using JavaScript. Our customers can create elegant, high-performance products across a wide variety of hardware platforms, using relatively little code that's easier to test, maintain and evolve. On the service provider side of the video business, a leading service provider in Korea launched their 4K platform using our ARMADA 1500 device and we expect several other service providers to start shipping their own version of Internet Protocol television and over-the-top hybrid set-top boxes using our ARMADA 1500 family of video SoC in the near future. For example, one of our leading service providers in France recently launched their set-top box based on the ARMADA 1500 PRO SoC.

Demand in the quarter was weaker than expected in the networking market, but we continued to make progress in design wins with our networking SoC in areas such as network storage interconnect applications. We are also gaining share with telecommunication

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

and access infrastructure customers. We continue to gain traction with our recently introduced Questflo product line of network search engines that broadens our growing networking product portfolio. Today's traditional TCAM-based solutions are unable to address future scaling requirements and multiple customers are actively engaged with us for next generation solutions. Our SRAM-based Questflo products are targeted for carrier customers and increase capacity using less power delivering better performance-power metrics compared to competitors.

## **Table of Contents**

Our cost of goods sold as a percentage of net revenue for the first quarter of fiscal 2016 was lower compared to the first quarter of fiscal 2015. The mobile and wireless end markets generally have lower average gross margins than the rest of our business and changes in the revenue mix between end markets will affect cost of goods sold as a percentage of net revenue.

We believe our financial position is strong and we remain committed to deliver shareholder value through our share repurchase and dividend programs.

Our cash, cash equivalents and short-term investments were \$2.5 billion at May 2, 2015.

We generated cash flow from operations of \$58.9 million during the first quarter of fiscal 2016.

We paid cash dividends of \$0.06 per share for a total of \$30.9 million during the first quarter of fiscal 2016 and we recently announced a dividend of \$0.06 per share to be paid in the second quarter of fiscal 2016.

We repurchased 1.4 million of our common shares for \$22.1 million in the first quarter of fiscal 2016.

We are currently involved in a patent litigation action with CMU (See Risk Factors under Part II, Item 1A of this Quarterly Report on Form 10-Q and Note 10 Commitments and Contingencies in the Notes to the Unaudited Condensed Consolidated Financial Statements for a further discussion of the risks associated with this matter and other patent litigation matters). A jury has awarded past damages of \$1.17 billion, and the Court calculated damages, including enhancement, to total approximately \$1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through May 2, 2015 could be as much as \$450 million. On May 7, 2014, the District Court entered final judgment and on May 14, 2014, we filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., which held a hearing for oral argument on April 7, 2015. We have secured certain surety bonds for the duration of the appeal to stay execution of judgment pending the appeal. See Note 10 Commitments and Contingencies Surety Bonds in the Notes to the Unaudited Condensed Consolidated Financial Statements for a further discussion of these surety bonds. We strongly believe that we do not infringe on the methods described in the CMU patents and that our products use our own internally developed patented read channel technology.

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

Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. Net revenue from one customer was 20% and 19% for the three months ended May 2, 2015 and May 3, 2014, respectively. Net revenue from a second customer was 14% and 11% for the three months ended May 2, 2015 and May 3, 2014, respectively. Net revenue from a third customer represented 10% of net revenue for the three months ended May 2, 2015. We also had net revenue from one distributor representing 12% and 10% for the three months ended May 2, 2015 and May 3, 2014, respectively. We continuously monitor the creditworthiness of our distributors and believe these distributors' sales to diverse end customers and geographies further serve to mitigate our exposure to credit risk.

Most of our sales are made to customers located outside of the United States, primarily in Asia. Sales to customers located in Asia represented 95% of our net revenue for the three months ended May 2, 2015 and May 3, 2014. Because many manufacturers and manufacturing subcontractors of our customers are located in Asia, we expect that most of our net revenue will continue to be represented by sales to our customers in that region.

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

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

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 January 30, 2010 as fiscal 2010, the fiscal year ended January 29, 2011 as fiscal 2011, the fiscal year ended January 28, 2012 as fiscal 2012, the fiscal year ended February 2, 2013 as fiscal 2013, the fiscal year ending February 1, 2014 as fiscal 2014, the fiscal year ending January 31, 2015 as fiscal 2015 and the fiscal year ending January 30, 2016 as fiscal 2016.

**Table of Contents****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 31, 2015.

**Results of Operations**

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

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
Net revenue	100.0%	100.0%
Operating costs and expenses:		
Cost of goods sold	48.5	51.6
Research and development	38.7	30.8
Selling and marketing	5.0	4.0
General and administrative	5.7	3.2
Amortization and write-off of acquired intangible assets	0.3	0.7
Total operating costs and expenses	98.2	90.3
Operating income	1.8	9.7
Interest and other income, net	0.7	0.2
Income before income taxes	2.5	9.9
Provision (benefit) for income taxes	0.6	(0.5)
Net income	1.9%	10.4%

**Three months ended May 2, 2015 and May 3, 2014***Net Revenue*

	<b>Three Months Ended</b>		
	<b>May 2, 2015</b>	<b>May 3, 2014</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Net revenue	\$ 724,288	\$ 957,830	(24.4)%

Net revenue for the three months ended May 2, 2015 decreased by \$233.5 million compared to the three months ended May 3, 2014 mainly due to lower sales of our mobile and wireless products. The decrease in net revenue was further affected by lower sales of products for the storage market due to weaker than expected demand from customers in general, as economic conditions weakened overall in the semiconductor industry. Our networking revenue also declined in the three months ended May 2, 2015 compared to the three months ended May 3, 2014 from lower demand for enterprise switches and routers.

We currently expect overall net revenue for the three months ending August 1, 2015 to be in the range of \$710 million to \$740 million. We expect revenue from products for the storage end market to decline while revenue from products for the mobile and wireless, and the networking end markets is anticipated to be flat to slightly up.



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

	<b>Three Months Ended</b>		
	<b>May 2, 2015</b>	<b>May 3, 2014</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Cost of goods sold	\$ 351,153	\$ 493,860	(28.9)
% of net revenue	48.5%	51.6%	

Cost of goods sold as a percentage of net revenue was lower for the three months ended May 2, 2015 primarily due to declining revenue from our mobile and wireless products which have higher average cost of goods sold as a percentage of revenue. In addition, we had lower write-downs of excess inventory and other manufacturing period costs. Our cost of goods sold as a percentage of net revenue may fluctuate in future periods due to, among other things, changes in the mix of products sold; the timing of production ramps of new products; increased pricing pressures from our customers and competitors, particularly in the consumer product markets that we are targeting; charges for obsolete or potentially excess inventory; changes in the costs charged by our foundry, assembly and test subcontractors; product warranty costs; changes in commodity prices such as gold; and the margin profiles of our new product introductions.

We currently expect cost of goods sold as a percentage of net revenue for the three months ending August 1, 2015 to be slightly higher compared to the three months ended May 2, 2015.

*Share-Based Compensation Expense*

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
	<b>(in thousands)</b>	
Cost of goods sold	\$ 1,547	\$ 2,299
Research and development	24,781	20,368
Selling and marketing	2,577	2,928
General and administrative	4,316	4,374
	<b>\$ 33,221</b>	<b>\$ 29,969</b>

Share-based compensation expense increased by \$3.3 million for the three months ended May 2, 2015 compared to the three months ended May 3, 2014. The increase reflects higher share-based compensation expense related to the performance-based awards granted to our executive officers in April 2014. In addition, lower share-based compensation expense in the three months ended May 3, 2014 includes the reversal of previously recognized expense associated with unvested equity awards that were cancelled as a result of the resignation in February 2014 of our former Chief Technology Officer. No such credit is reflected in the share-based compensation expense in the three months ended May 2, 2015.

*Restructuring*

	<b>Three Months Ended</b>	
	<b>May 2, 2015</b>	<b>May 3, 2014</b>
	<b>(in thousands)</b>	
Research and development	\$	\$ 4,682
Selling and marketing		48
General and administrative	592	358
Write-off of acquired intangible assets		3,386
	<b>\$ 592</b>	<b>\$ 8,474</b>

We recorded a total \$0.6 restructuring charge in the three months ended May 2, 2015. There were no other significant activities that occurred in the three months ended May 2, 2015. See Note 8 Restructuring in the Notes to the Unaudited Condensed Consolidated Financial Statements for further discussion.



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

	<b>Three Months Ended</b>		
	<b>May 2, 2015</b>	<b>May 3, 2014</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Research and development	\$ 280,114	\$ 295,363	(5.2)%
% of net revenue	38.7%	30.8%	

Research and development expense decreased by \$15.2 million for the three months ended May 2, 2015 compared to the three months ended May 3, 2014. The decrease was attributable to \$10.6 million of lower personnel-related costs primarily due to headcount reduction that occurred in Israel to streamline operations to align with our overall strategic plan during fiscal 2015. Additionally, that action resulted in higher restructuring charges of \$4.7 million included in the three months ended May 3, 2014 compared to \$0.1 million in the three months ended May 2, 2015.

*Selling and Marketing*

	<b>Three Months Ended</b>		
	<b>May 2, 2015</b>	<b>May 3, 2014</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Selling and marketing	\$ 36,174	\$ 38,358	(5.7)
% of net revenue	5.0%	4.0%	

Selling and marketing expense decreased by \$2.2 million for the three months ended May 2, 2015 compared to the three months ended May 3, 2014. The decrease was attributable to \$4.0 million of lower personnel-related costs due to lower headcount, which was partially offset by higher costs for certain marketing advertisement activities.

*General and Administrative*

	<b>Three Months Ended</b>		
	<b>May 2, 2015</b>	<b>May 3, 2014</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
General and administrative	\$ 41,027	\$ 30,573	34.2
% of net revenue	5.7%	3.2%	

General and administrative expense increased by \$10.5 million for the three months ended May 2, 2015 compared to the three months ended May 3, 2014. The increase was mostly driven by the effect of a \$15.4 million cash payment to our Chief Executive Officer (see Note 13 Related Party Transactions in the Notes to the Unaudited Condensed Consolidated Financial Statements). This increase was partially offset by \$3.4 million of lower legal expenses for on-going litigation matters, combined with slightly lower personnel-related costs due to lower headcount.

*Amortization and Write-Off of Acquired Intangible Assets*

	<b>Three Months Ended</b>		
	<b>May 2, 2015</b>	<b>May 3, 2014</b>	<b>% Change</b>
	<b>(in thousands, except percentage)</b>		
Amortization and write-off of acquired intangible assets	\$ 2,568	\$ 6,689	(61.6)
% of net revenue	0.3%	0.7%	

Amortization and write-off of acquired intangible assets decreased by \$4.1 million for the three months ended May 2, 2015 compared to the three months ended May 3, 2014. The decrease reflects the effect of a charge included in the three months ended May 3, 2014 to write off \$3.4

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

million of in-process research and development. There was no such charge in the three months ended May 2, 2015. In addition, amortization expense of acquired intangible assets declined \$0.7 million as certain intangible assets have become fully amortized.

### *Interest and Other Income, Net*

	<b>Three Months Ended</b>		<b>% Change</b>
	<b>May 2, 2015</b>	<b>May 3, 2014</b>	
	<b>(in thousands, except percentage)</b>		
Interest and other income, net	\$ 5,167	\$ 1,925	168.4
% of net revenue	0.7%	0.2%	

**Table of Contents**

Interest and other income, net, increased by \$3.2 million for the three months ended May 2, 2015 compared to the three months ended May 3, 2014, primarily due to the recognition of foreign currency gains from the revaluation of our foreign currency denominated tax liabilities as the U.S. dollar strengthened during the three months ended May 2, 2015 compared to the three months ended May 3, 2014. In addition, we had higher interest income due to overall higher interest rates and average cash balances.

*Provision (benefit) for Income Taxes*

	<b>Three Months Ended</b>		<b>% Change</b>
	<b>May 2, 2015</b>	<b>May 3, 2014</b>	
Provision (benefit) for income taxes	\$ 4,329	\$ (4,567)	(194.8)%
<i>% of net revenue</i>	<i>0.6%</i>	<i>(0.5)%</i>	

We had an effective tax rate of 23.5% in the three months ended May 2, 2015. Our income tax provision for the three months ended May 2, 2015 included the current income tax liability of \$4.3 million, plus an additional provision of \$3.1 million related to a \$15.4 million cash payment to the Company's Chief Executive Officer (see Note 13 Related Party Transactions in the Notes to the Unaudited Condensed Consolidated Financial Statements), which were offset by a net reduction in unrecognized tax benefits of \$3.1 million. The net reduction in unrecognized tax benefits arose from the release of \$4.0 million due to expiration of the statute of limitations in a non-U.S. jurisdiction, which was partially offset by penalties and interest of \$0.9 million accrued on the outstanding unrecognized tax benefit balance.

The income tax benefit for the three months ended May 3, 2014 had an effective tax rate of 4.8% and included the current income tax liability of \$5.7 million, which was offset by tax benefits of \$2.5 million from a net reduction in unrecognized tax benefits and \$7.8 million from an increase in the net deferred tax assets because of the continued discussion with the Singapore tax authorities that resulted in an agreement for a major portion of the pre-tax income to be taxed at a new DEI. The net reduction in unrecognized tax benefits arose from the release of \$4.9 million due to expiration of the statute of limitations, which was reduced by an increase in current unrecognized tax benefit estimates of \$1.1 million and a \$1.3 million tax expense related to the fiscal year 2014 tax return of a non-U.S. jurisdiction.

It is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to foreign currencies within the next 12 months. Excluding these factors, uncertain tax positions may decrease by as much as \$11 million from the lapse of statutes of limitation in various jurisdictions during the next 12 months. Government tax authorities from several non-U.S. jurisdictions are also examining returns. We believe that we have adequately provided for any reasonably foreseeable outcomes related to our tax audits and that any settlement will not have a material effect on our results at this time.

We operate under tax incentives in certain countries, which may be extended if certain additional requirements are satisfied. The tax incentives are conditional upon meeting certain employment and investment thresholds. The impact of these tax incentives decreased foreign taxes by \$3.3 million in each of the three months ended May 2, 2015 and May 3, 2014. The benefit of the tax incentives on net income per share was \$0.01 per share for the three months ended May 2, 2015 and less than \$0.01 per share May 3, 2014.

---

## **Table of Contents**

### **Liquidity and Capital Resources**

Our principal source of liquidity as of May 2, 2015 consisted of approximately \$2.5 billion of cash, cash equivalents and short-term investments, of which approximately \$900 million was held by foreign subsidiaries (outside Bermuda). Approximately \$500 million of this amount held by foreign subsidiaries is related to undistributed earnings, which have been indefinitely reinvested outside of Bermuda. These funds are primarily held in China, Israel, the United States and Switzerland. We have plans to use such amounts to fund various activities outside of Bermuda including working capital requirements, capital expenditures for expansion, funding of future acquisitions, or other financing activities. If such funds were needed by the parent company in Bermuda or if the amounts were otherwise no longer considered indefinitely reinvested, we would incur a tax expense of approximately \$150 million. We believe that our existing cash, cash equivalents and short-term investments, together with cash generated from operations, exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to cover our working capital needs, capital expenditures, investment requirements, any declared dividends and commitments for at least the next 12 months. Our capital requirements will depend on many factors, including our rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects and increases in operating expenses, which are all subject to uncertainty. In addition, we are named as defendants to several litigation actions and an unfavorable outcome in any current litigation could have a material adverse effect on our liquidity, cash flows and results of operations. Specifically, with respect to the CMU litigation, a jury has awarded past damages of \$1.17 billion, and CMU has sought pre-judgment interest, post-judgment interest, attorneys' fees, and an injunction and/or ongoing royalties. Based on a series of post-trial rulings, the District Court calculated the damages including enhancement to total approximately \$1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through May 2, 2015 could be as much as \$450 million. On May 7, 2014, the District Court entered final judgment, from which we filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., which held a hearing for oral argument on April 7, 2015. We have secured certain surety bonds for the duration of the appeal to stay execution of judgment pending the appeal. See Note 10 Commitments and Contingencies Surety Bonds in the Notes to the Unaudited Condensed Consolidated Financial Statements for a further discussion of these surety bonds. We strongly believe that we do not infringe on the methods described in the CMU patents and that our products use our own internally developed patented read channel technology. See the section entitled Off-Balance Sheet Arrangements below for a discussion of the effects on liquidity from the CMU litigation.

To the extent that our existing cash, cash equivalents and short-term investments and cash generated by operations are insufficient to fund our future activities, we may need to raise additional funds through public or private debt or equity financing. We may also enter into additional acquisitions of businesses, purchase assets or enter into other strategic arrangements in the future, which could also require us to seek debt or equity financing. Additional equity financing or convertible debt financing may be dilutive to our current shareholders. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to our common shares.

On May 21, 2015, the Company announced that its board of directors declared a cash dividend of \$0.06 per share to be paid on July 1, 2015 to shareholders of record as of Jun 11, 2015.

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

Net cash provided by operating activities was \$58.9 million for the three months ended May 2, 2015. The cash inflows from operations for the three months ended May 2, 2015 were due to \$77.9 million of net income adjusted for non-cash items and a negative effect from changes in working capital of \$19.0 million. The cash outflow from working capital for the three months ended May 2, 2015 was primarily driven by an increase in inventory due to weaker than expected short-term demand, combined with decreases in accrued employee compensation primarily from the payment of the annual incentive compensation offset by additional employee stock purchase plan withholdings. The negative effect on working capital was partially offset by a decrease in accounts receivable due to lower sales and an increase in accounts payable.

Net cash provided by operating activities was \$235.1 million for the three months ended May 3, 2014. The cash inflows from operations for the three months ended May 3, 2014 were primarily due to \$165.0 million of net income adjusted for non-cash items and a positive effect from changes in working capital of \$70.1 million.

#### ***Net Cash Used in Investing Activities***

Net cash used in investing activities was \$166.6 million for the three months ended May 2, 2015 compared to net cash used in investing activities of \$24.3 million for the three months ended May 3, 2014. For the three months ended May 2, 2015, net cash used in investing activities was primarily due to payment of \$10.2 million purchase of equipment previously leased, \$7.3 million for the purchase of property and equipment, and \$3.6 million for the purchase of technology licenses. In addition to these payments, net cash used in investing activities for the

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

three months ended May 2, 2015 included net cash outflows from purchases of available-for-sales securities of \$392.9 million less the sales and maturities of available-for-sale securities of \$247.5 million.

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

---

## **Table of Contents**

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

Net cash used in financing activities was \$64.5 million for the three months ended May 2, 2015 compared to net cash used in financing activities of \$35.3 million for the three months ended May 3, 2014. For the three months ended May 2, 2015, net cash used in financing activities was primarily attributable to payments of our quarterly dividends of \$30.9 million and repurchase of our common shares in the open market for \$20.3 million under our share repurchase program. Net cash used in financing activities for the three months ended May 2, 2015 was also attributable to a \$22.3 million minimum tax withholding payments on behalf of employees for net share settlements. These cash outflows were partially offset by net proceeds of \$13.0 million from the issuance of our common shares under our share-based plans.

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

Subsequent to the end of the quarter through May 28, 2015, the Company repurchased an additional 0.9 million of its common shares for \$12.9 million at an average price per share of \$13.84.

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

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities of financial partnerships, such as entities often referred to as structured finance or special purpose entities ( SPEs ), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of May 2, 2015, we were not involved in any unconsolidated SPE transactions.

On May 14, 2014, we filed a Notice of Appeal to appeal the final judgment issued by the District Court in the CMU litigation. In order to stay the execution of the final judgment pending its appeal, we filed a supersedeas bond for \$1.54 billion with the District Court. The bond was issued by a consortium of sureties authorized by the U.S. Treasury. If the judgment is affirmed after the completion of all appellate proceedings, and we do not thereafter fully satisfy the judgment within thirty days, the sureties are obligated under the bond to make payment to CMU. In support of the bond, we entered into separate indemnity agreements with each of the sureties to indemnify the sureties from all costs and payments made under the bond. The indemnity agreements did not require collateral to be posted at the time of the issuance of the bond. Therefore no cash is considered restricted as of the date of this filing. However, the indemnity agreements provide that each of the sureties have the right to demand to be placed in funds or call for collateral under pre-defined events. The indemnity agreements will remain outstanding for as long as the underlying bond remains outstanding. See also Note 10 Commitments and Contingencies in the Notes to the Unaudited Condensed Consolidated Financial Statements for a further discussion of this matter.

The Court has required us to report ongoing royalties under the current judgment. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through May 2, 2015 could be as much as \$450 million. On November 14, 2014, we filed a second surety bond for \$216 million and filed a commitment letter from the sureties to issue up to an additional \$95 million in bonding under certain conditions. The second bond and commitment are secured by our campus located in Santa Clara, California, which has a carrying value of \$138 million at May 2, 2015. We and CMU have agreed that the second bond and commitment satisfy the security for ongoing royalties while the appeal is pending.

### **Contractual Obligations**

We presented our contractual obligations at January 31, 2015 in our Annual Report on Form 10-K for the fiscal year then ended. There have been no material changes outside the ordinary course of business in those obligations during the three months ended May 2, 2015, other than as noted under the section entitled Off-Balance Sheet Arrangements above.

### **Indemnification Obligations**

See Note 10 Commitments and Contingencies in the Notes to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

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

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

*Interest Rate Risk.* Our interest rate risk relates primarily to our fixed income short-term investment portfolio as we did not have any outstanding debt as of May 2, 2015. We maintain an investment policy that requires minimum credit ratings, diversification of credit risk and limits the long-term interest rate risk by requiring maturities of generally less than five years. We invest our excess cash primarily in highly liquid debt instruments of the U.S. government and its agencies, time deposits, money market mutual funds, asset backed securities, corporate debt securities and municipal debt securities. These investments are classified as available-for-sale and, consequently, are recorded on our balance sheets at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income in shareholders' equity. Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

**Table of Contents**

To provide an assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact that an adverse change in interest rates would have on the value of the investment portfolio. Based on investment positions as of May 2, 2015, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$20.8 million decline in the fair market value of the portfolio. Due to our positive cash flow from operations, the relatively short-term nature of our investment portfolio and our ability to hold investments to maturity, such change in fair market value would likely not have resulted in any cash flow impact.

As of May 2, 2015, our investment portfolio included \$12.5 million in par value of auction rate securities classified as long-term investments. Although these securities have continued to pay interest, there is currently limited trading volume. To estimate the fair value of the auction rate securities, we use a discounted cash flow model based on estimated timing and amount of future interest and principal payments. In developing the cash flow model, we consider the credit quality and liquidity of the underlying securities and related issuer, the collateralization of underlying security investments and other considerations. The fair value of these auction rate securities as of May 2, 2015, was \$2.4 million less than par value.

Based on our balance of approximately \$2.5 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 \$9.3 million at May 2, 2015, and was included in other non-current assets in our balance sheets. We monitor these investments for impairment and make appropriate reductions in carrying value when an impairment is deemed to be other-than-temporary.

*Foreign Currency Exchange Risk.* All of our sales and the majority of our expenses are denominated in U.S. dollars. Since we operate in many countries, we pay certain payroll and other operating expenses in local currencies and these expenses may be higher or lower in U.S. dollar terms. Furthermore, our operations in Israel and China represent a large portion of our total foreign currency exposure. In the most recent quarter and after effects of hedging, the US dollar strength has resulted in 2% lower operating expenses. Additionally we may 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. 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 and Chinese yuan expenses. We enter into certain short-term forward exchange contracts, typically less than 12 months in duration, to hedge exposures for expenses and purchases denominated in foreign currencies when the currency exposure is significant and there is a high certainty of the underlying cash flow. We do not enter into derivative financial instruments for trading or speculative purposes. We may choose not to hedge certain foreign exchange exposures due to immateriality, offsetting exposures, prohibitive economic cost of hedging a particular currency, and limited availability of appropriate hedging instruments. To the extent our foreign currency hedges are effective, the results of the hedge activities offset the underlying expense within the operating expense. Financial instruments not designated as hedges or hedges deemed ineffective are recorded in interest and other income, net. We do not hedge our tax liabilities denominated in local currency on our balance sheet as the timing of these tax liabilities becoming cash flows is not deemed to be certain.

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

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

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



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

ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of May 2, 2015, our disclosure controls and procedures were effective.

**Table of Contents**

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended May 2, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Limitation on Effectiveness of Controls**

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

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The information under the caption "Contingencies" as set forth in "Note 10 Commitments and Contingencies" of our Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1, is incorporated herein by reference. For additional discussion of certain risks associated with legal proceedings, see Part II, Item 1A, "Risk Factors," immediately below.

**Item 1A. Risk Factors**

*Before deciding to purchase, hold or sell our common shares, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere and the other information contained in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission ( "SEC" ), including our Annual Report on Form 10-K for the year ended January 31, 2015 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 other industries in which we compete.*

***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 the conditions in the end markets we address, including the continuing volatility in the technology sector and semiconductor industry;

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

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

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

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

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

gain or loss of a design win or key customer;

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

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

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

failure to protect our intellectual property;

impact of a significant natural disaster, including earthquakes, floods and tsunamis, particularly in certain regions in which we operate or own buildings, such as Santa Clara, and where our third party suppliers operate, such as Taiwan and elsewhere in the Pacific Rim; and

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

## **Table of Contents**

Due to fluctuations in our quarterly results of operations and other factors, the price at which our common shares will trade is likely to continue to be highly volatile. From January 28, 2012 through May 2, 2015, our common shares traded as low as \$6.98 and as high as \$16.86 per share. Accordingly, you may not be able to resell your common shares at or above the price you paid. In future periods, our stock price could decline if, amongst other factors, our revenues or operating results are below our estimates or the estimates or expectations of securities analysts and investors. As a result of stock price volatility, we may be subject to securities class action litigation. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully maintain and grow our business.

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

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

In addition, semiconductor providers have experienced consolidation over the past several years. For example, Broadcom Corporation acquired NetLogic Microsystems in February 2011, Qualcomm Inc. acquired Atheros Communications Inc. in May 2011, Texas Instruments Incorporated acquired National Semiconductor in September 2011 and Avago Technologies Limited ( Avago ) acquired LSI Corporation ( LSI ) in May 2014. Other pending transactions may further consolidate competition in our industry. Consolidation among our competitors could lead to a changing competitive landscape, capabilities and market share, which could harm our results of operations.

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

On March 6, 2009, Carnegie Mellon University ( CMU ) filed a complaint in the U.S. District Court for the Western District of Pennsylvania naming Marvell Semiconductor, Inc. and us as defendants, and alleging patent infringement. CMU has asserted U.S. Patent Nos. 6,201,839 and 6,438,180 (collectively, the CMU patents in suit ), which relate to read-channel integrated circuit devices and the HDD products incorporating such devices. A jury trial began on November 26, 2012. On December 26, 2012, a jury delivered a verdict that found the CMU patents in suit were literally and willfully infringed and valid, and awarded past damages in the amount of \$1.17 billion. CMU sought in its post-trial motions enhanced damages up to three times the jury verdict, pre-judgment interest up to \$322 million, post-judgment interest, supplemental damages, attorneys' fees, and an injunction and/or ongoing royalties. Post-trial motions were heard on May 1 and 2, 2013. On June 26, 2013, the District Court denied CMU's post-trial motion for attorney fees without prejudice. On August 23, 2013, the District Court denied our motion for mistrial. On September 23, 2013, the District Court denied our motion for judgment as a matter of law or a new trial on non-infringement, invalidity and other non-damages issues as well as our motion for reduced damages. On the same day, the District Court granted-in-part CMU's motion for a finding of willful infringement and enhanced damages, reserving its further rulings on any enhancement of the verdict for a separate opinion. On January 14, 2014, the District Court denied our post-trial motion on laches. On March 31, 2014, the District Court rejected CMU's motion for an injunction. The District Court also denied CMU's request for pre-judgment interest, and substantially scaled back CMU's request for enhanced damages. Based on these decisions, the Court calculated the damages including enhancement to total approximately \$1.54 billion, and held that, under its decision, CMU is entitled to post judgment interest and an ongoing royalty. On May 7, 2014, the District Court entered final judgment, from which we filed a notice of appeal on May 14, 2014 to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. We filed our opening appeal brief on August 4, 2014. CMU filed its opposition brief on October 20, 2014 and we filed our reply brief on November 20, 2014. We believe that there are strong grounds for appeal and we are currently pursuing an appeal to the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., which held hearing for oral argument on April 7, 2015. There is no guarantee that we will be successful on appeal. If we

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

are required to pay most or all of the damages calculated by the District Court after all appeals have been exhausted, this could have a material adverse effect on our business, financial condition, results of operations and cash flows.

## **Table of Contents**

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

The Court has required us to report ongoing royalties under the current judgment. Based on the royalty rate assessed by the District Court, such additional royalties for the period of time commencing on the date ordered by the District Court, January 15, 2013, through May 2, 2015 could be as much as \$450 million. On November 14, 2014, we filed a second surety bond for \$216 million and filed a commitment letter from the sureties to issue up to an additional \$95 million in bonding under certain conditions. The second bond and commitment are secured by our campus located in Santa Clara, California, which has a carrying value of \$138 million at May 2, 2015. We and CMU have agreed that the second bond and commitment satisfy the security for ongoing royalties while the appeal is pending.

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

The HDD industry is intensely competitive, and the technology changes rapidly. This industry has historically been cyclical, with periods of increased demand and rapid growth followed by periods of oversupply and subsequent contraction. These cycles may affect us because some of our largest customers are participants in this industry.

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

In addition, the HDD industry has experienced consolidation over the past several years. For example, during fiscal 2010, Toshiba acquired the HDD operations of Fujitsu. In December 2011, Seagate Technology plc ( 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. If we are unable to leverage our technology and customer relationships, we may not capitalize on the increased opportunities for our products within the combined company.

Furthermore, future changes in the nature of information storage products could reduce demand for traditional HDDs. For example, products using solid state drives ( SSDs ) have become a source of competition to manufacturers of HDDs. Although we offer SSD controllers, leveraging our technology in hard drives, we cannot ensure we will be able to maintain significant market share if demand for traditional HDDs decreases. Additionally, we depend on a few customers for our SSD controllers and as such, the loss of any SSD controller customer or a significant reduction in sales we make to them (for example, as a result of a significant drop in market share) may harm our financial condition and results of operations.

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

We receive a significant amount of our revenues from a limited number of customers. Net revenue from our two largest customers represented 34% and 30% of our net revenue for the three months ended May 2, 2015 and May 3, 2014, respectively. Sales to our largest customers have fluctuated significantly from period to period and year to year primarily due to the timing and number of design wins with each customer, natural disasters that may divert a customer's operations, as well as the continued diversification of our customer base as we expand into new markets, and will likely continue to fluctuate in the future. The loss of any of our large customers or a significant reduction in sales we make to them would likely harm our financial condition and results of operations. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that incorporate our products. In the future, these customers may decide not to purchase our products at all, purchase fewer products than they did in the past, or alter their purchasing patterns in some other way, particularly because:

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

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;



## Table of Contents

customers may purchase integrated circuits from our competitors;

customers may discontinue sales or lose market share in the markets for which they purchase our products (for example, a significant customer of our SSD products has recently seen a significant drop in its market share);

customers may develop their own solutions or acquire fully developed solutions from third-parties (for example, in September 2014, Seagate acquired the LSI SSD business from Avago); or

customers may be subject to severe business disruptions.

***We have been named as a party to several lawsuits and may be named in additional litigation in the future, including 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.***

We have been named as a party to several lawsuits and we may be named in additional litigation in the future. Please see Note 10 Commitments and Contingencies of our Notes to Unaudited Condensed Consolidated Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q for a more detailed description of a number of the litigation matters we are currently engaged in. In particular, 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.

From time to time our subsidiaries and customers receive, and may continue to receive in the future, standards-based infringement claims, as well as claims against us and our subsidiaries proprietary technologies, particularly those related to storage technology, microprocessors and other circuit components. Our subsidiaries and customers could face claims of infringement for certain patent licenses that have not been renewed. 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 or other license violations 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.

Under certain circumstances, we have contractual and other legal obligations to indemnify and to incur legal expenses for current and former directors and officers. Additionally, from time to time, we have agreed to indemnify select customers for claims made against our products, where such claims allege infringement of third-party intellectual property rights, including, but not limited to, patents, registered trademarks and/or copyrights. If we are required to make a significant payment under any of our indemnification obligations, our results of operations may be harmed.

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

In addition, due to the high volatility of our stock price, we may be vulnerable to securities class action litigation. Furthermore, 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 our stock price may be materially and adversely affected.

## **Table of Contents**

***We rely on independent foundries and subcontractors for the manufacture, assembly and testing of our integrated circuit products, and the failure of any of these third-party vendors to deliver products or otherwise perform as requested could damage our relationships with our customers, decrease our sales and limit our 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, and other sources are located in China and Singapore. In addition, substantially all of our third-party assembly and testing facilities are located in Singapore, Taiwan, Malaysia and the Philippines. Because of the geographic concentration of these third-party foundries, as well as our assembly and test subcontractors, we are exposed to the risk that their operations may be disrupted by regional disasters including, for example, earthquakes (particularly in Taiwan and elsewhere in the Pacific Rim close to fault lines), tsunamis or typhoons, or by political, social or economic instability. In the case of such an event, our revenues, cost of goods sold and results of operations would be negatively impacted. In addition, if we were unable to quickly identify alternate manufacturing facilities, we could experience significant delays in product shipments, which could harm our results of operations.

### *No Guarantee of Capacity or Supply*

The ability of each foundry to provide us with semiconductor devices is limited by its available capacity and existing obligations. When demand is strong, availability of foundry capacity may be constrained or not available, and with limited exceptions, our vendors are not obligated to perform services or supply products to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. We place our orders on the basis of our customers' purchase orders or our forecast of customer demand, and the foundries can allocate capacity to the production of other companies' products and reduce deliveries to us on short notice. It is possible that foundry customers that are larger and better financed than we are or that have long-term agreements with our main foundries may induce our foundries to reallocate capacity to those customers. This reallocation could impair our ability to secure the supply of components that we need. In particular, as we and others in our industry transition to smaller geometries, our manufacturing partners may be supply constrained or may charge premiums for these advanced technologies, which may harm our business or results of operations. See ["Manufacturing Risks"](#) in our 2019 Annual Report. 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. 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 multiple sources, most of our products are not manufactured at more than one foundry at any given time, and our products typically are designed to be manufactured in a specific process at only one of these foundries. Accordingly, if one of our foundries is unable to provide us with components as needed, it may be difficult for us to transition the manufacture of our products to other foundries, and we could experience significant delays in securing sufficient supplies of those components. This could result in a material decline in revenues, net income and cash flow.

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

### *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, which are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. 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. In addition, we may face lower manufacturing yields and reduced quality in the process of ramping up and diversifying our manufacturing partners. Poor yields from our foundries, or defects, integration issues or other performance problems in our products could cause us significant customer relations and

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

business reputation problems, harm our financial results and result in financial or other damages to our customers. Our customers could also seek damages which could result in a product liability claim, which would likely be time consuming and costly to defend. In addition, defects could result in significant costs. See Costs related to defective products could have a material adverse effect on us.

## **Table of Contents**

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

### *Commodity Prices*

We are also subject to risk from fluctuating market prices of certain commodity raw materials 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.

***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. For example, we believe the success of Final-level-Cache ( FLC ) technology may be an important factor in the future growth of the company. If FLC technology fails to function in actual product development at the level required for market acceptance, or if our customers do not readily embrace the technology as quickly as we would anticipate, our future results may be impacted. Our ability to adapt to 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. We may also have to incur substantial unanticipated costs to comply with these new standards. Our success will also depend on the ability of our customers to develop new products and enhance existing products for the markets they serve and to introduce and promote those products successfully in a timely manner. Even if new and enhanced products are introduced to the market, we and our customers may not be able to achieve market acceptance of them.

***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.

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

Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities, and our costs may even increase, which could also reduce our gross margins.

---

**Table of Contents**

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

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Customers can generally cancel or defer purchase orders on short notice without incurring a significant penalty. Due to their inability to predict demand or other reasons, some of our customers may accumulate excess inventories and, as a consequence, defer purchase of our products. We cannot accurately predict what or how many products our customers will need in the future. Anticipating demand is difficult because our customers face unpredictable demand for their own products and are increasingly focused more on cash preservation and tighter inventory management. In addition, as an increasing number of our chips are being incorporated into consumer products, we anticipate greater fluctuations in demand for our products, which makes it more difficult to forecast customer demand. We place orders with our suppliers based on forecasts of customer demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. Our forecasts are based on multiple assumptions, each of which may introduce error into our estimates. For example, our ability to accurately forecast customer demand may be impaired by the delays inherent in our lengthy sales cycle. The sales cycle for many of our products is long and requires us to invest significant resources with each potential customer without any assurance of sales to that customer. Our sales cycle typically begins with an extended evaluation and test period, also known as qualification, during which our products undergo rigorous reliability testing by our customers. Qualification is typically followed by an extended development period by our customers and an additional three to nine month period before a customer commences volume production of equipment incorporating our products. This lengthy sales cycle creates the risk that our customers will decide to cancel or change product plans for products incorporating our integrated circuits prior to completion, which makes it even more difficult to forecast customer demand.

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

If we overestimate customer demand, our excess or obsolete inventory may increase significantly, which would reduce our gross margin and adversely affect our financial results. The risk of obsolescence and/or excess inventory is heightened for devices designed for consumer electronics due to the rapidly changing market for these types of products. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would miss revenue opportunities and potentially lose market share and damage our customer relationships. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect our profit margins, increase product obsolescence and restrict our ability to fund our operations.

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

To achieve our business objectives, it may be necessary from time to time for us to expand or contract our operations. In the future, we may not be able to scale our workforce and operations in a sufficiently timely manner to respond effectively to changes in demand for our existing products or to the demand for new products requested by our customers. In that event, we may be unable to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected. Conversely, if we expand our operations and workforce too rapidly in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expected, the rate of increase in our costs and operating expenses may exceed the rate of increase in our revenue, which would adversely affect our results of operations. In addition, if such demand does not materialize at the pace which we expect, we may be required to scale down our business through expense and headcount reductions as well as facility consolidations or closures that could result in restructuring charges that would materially and adversely affect our results of operations. Because many of our expenses are fixed in the short-term or are incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any decrease in customer demand. If customer demand does not increase as anticipated, our profitability could be adversely affected due to our higher expense levels.

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



## **Table of Contents**

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

We operate in the semiconductor industry, which is cyclical and subject to rapid change and evolving industry standards. From time to time, this industry has experienced significant demand downturns. These downturns are characterized by decreases in product demand, excess customer inventories and sometimes accelerated erosion of prices, including as a result of volatile global economic conditions. These factors could cause substantial fluctuations in our net revenue, gross margin, cash flows and results of operations. In addition, during these downturns some competitors may become more aggressive in their pricing practices, which would adversely impact our gross margin. Any downturns in the current environment may be severe and prolonged, and any failure of the markets in which we operate to fully recover from downturns could seriously impact our revenue and harm our business, financial condition and results of operations. The semiconductor industry is also subject to periodic increases in demand and supply constraints, which may affect our ability to ship products. Accordingly, our results of operations may vary significantly as a result of the general conditions in the semiconductor industry, which could cause fluctuations in our stock price.

We cannot predict the timing, strength or duration of any economic slowdown or recovery or the impact of any such events on our vendors, customers or us. If the economy or markets in which we operate deteriorate from current levels, our business, financial condition and results of operations will likely be materially and adversely affected. Additionally, the combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could adversely impact our results of operations.

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

We had approximately \$2.0 billion of goodwill and \$27.6 million of acquired intangible assets, net on our balance sheet as of May 2, 2015. Under generally accepted accounting principles in the United States, we are required to review our intangible assets including goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We perform an assessment of goodwill for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. We have only one reporting unit, and the fair value of the reporting unit is determined by taking our market capitalization as determined through quoted market prices and as adjusted for a control premium and other relevant factors. If our fair value declines to below our carrying value, we could incur significant goodwill impairment charges, which could negatively impact our financial results. If in the future a change in our organizational structure results in more than one reporting unit, we will be required to allocate our goodwill and perform an assessment of goodwill for impairment in each reporting unit. As a result, we may have an impairment of goodwill in one of our reporting units.

In addition, from time to time, we have made investments in private companies. If the companies that we invest in are unable to execute their plans and succeed in their respective markets, we may not benefit from such investments, and we could potentially lose the amounts we invest. We evaluate our investment portfolio on a regular basis to determine if impairments have occurred. If the operations of any businesses that we have acquired declines significantly, we could incur significant intangible asset impairment charges. Impairment charges could have a material impact on our results of operations in any period.

***We 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.





## **Table of Contents**

*We depend on key personnel to manage our business, and if we are unable to retain our current personnel or attract 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 competition for qualified technical personnel with significant experience in the design, development, manufacturing, marketing and sales of integrated circuits is intense, and 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. Additionally, we typically do not enter into employment agreements with any of our key technical personnel and the loss of such personnel could harm our business, as their knowledge of our business and industry would be extremely difficult to replace.

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

A substantial portion of our business is conducted outside of the United States and, as a result, we are subject to foreign business, political and economic risks. All of our products are manufactured outside of the United States. Our current qualified integrated circuit foundries are located in the same region within Taiwan, and our primary assembly and test subcontractors are located in the Pacific Rim region. In addition, many of our customers are located outside of the United States, primarily in Asia, which further exposes us to foreign risks. Sales to customers located in Asia represented approximately 95% of our net revenue in the three months ended May 2, 2015, 96% of our net revenue in fiscal 2015 and 95% of our net revenue in fiscal 2014.

We also have substantial operations outside of the United States. These operations are directly influenced by the political and economic conditions of the region in which they are located, and with respect to Israel, possible military hostilities, such as the recent turmoil in the region, that could affect our operations there. We anticipate that our manufacturing, assembly, testing and sales outside of the United States will continue to account for a substantial portion of our operations and revenue in future periods. Accordingly, we are subject to risks associated with international operations, including:

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

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

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

difficulties in staffing and managing foreign operations;

natural disasters, including earthquakes, tsunamis and floods;

trade restrictions or higher tariffs;

transportation delays;

difficulties of managing distributors;

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

inadequate local infrastructure; and

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

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

## **Table of Contents**

### ***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. Despite our testing procedures, we cannot assure you that 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, the process of identifying a recalled product in devices that have been widely distributed may be lengthy and require significant resources and we may have difficulty identifying the end customers of the defective products in the field, which may cause us to incur significant replacement costs, contract damage claims from our customers and further reputational harm. Any of these problems could materially adversely affect our results of operations.

### ***Any potential future acquisitions, strategic investments, divestitures, mergers or joint ventures may subject us to significant risks, any of which could harm our business.***

Our long-term strategy may include identifying and acquiring, investing in or merging with suitable candidates on acceptable terms, or divesting of certain business lines or activities. In particular, over time, we may acquire, make investments in, or merge with providers of product offerings that complement our business or may terminate such activities. Mergers, acquisitions and divestitures include a number of risks and present financial, managerial and operational challenges, including but not limited to:

diversion of management attention from running our existing business;

possible material weaknesses in internal control over financial reporting;

increased expenses including legal, administrative and compensation expenses related to newly hired or terminated employees;

increased costs to integrate the technology, personnel, customer base and business practices of the acquired company with us;

potential exposure to material liabilities not discovered in the due diligence process;

potential adverse effects on reported operating results due to possible write-down of goodwill and other intangible assets associated with acquisitions; and

unavailability of acquisition financing or unavailability of such financing on reasonable terms.

Any acquired business, technology, service or product could significantly under-perform relative to our expectations, and may not achieve the benefits we expect from possible acquisitions. For all these reasons, our pursuit of an acquisition, investment, divestiture, merger or joint venture could cause its actual results to differ materially from those anticipated.

### ***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 existing taxation benefits, rules or practices may adversely affect our financial results.***

Changes in existing taxation benefits, rules or practices may also have a significant effect on our reported results. For example, both the U.S. Congress and the G-20 (Group of Twenty Finance Ministers and Central Bank Governors) may consider legislation affecting the taxation of foreign corporations and such legislation if enacted might adversely affect our future tax liabilities and have a material impact on our results of operations. Furthermore, in prior years, we have entered into agreements in certain foreign jurisdictions that if certain criteria are met, the foreign jurisdiction will provide a more favorable tax rate than their current statutory rate. For example, we have obtained an undertaking from the Minister of Finance of Bermuda 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. Additionally, our Singapore subsidiary qualified for Pioneer status until it expired in June 2014. However, we re-negotiated with the Singapore government and in fiscal 2015, they extended the Development and Expansion Incentive ( DEI ) until June 2019. Furthermore, under the Israeli Encouragement law of approved or benefited enterprise, two branches of Marvell Israel (M.I.S.L) Ltd. are entitled to, and have certain existing programs that qualify as, approved and benefited tax programs that include reduced tax rates and exemption of certain income through fiscal 2027. Our subsidiary in Switzerland also has tax incentives on revenues from research and design and wafer supply trading activities that expire in fiscal 2016. If any of our tax agreements in any of these foreign jurisdictions were terminated, our results of our operations and profitability would be harmed.

## **Table of Contents**

***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 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. We have implemented processes for systems under our control to mitigate risks and while we believe these systems are appropriately controlled, processes for information systems cannot be guaranteed to be failsafe. 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 or we may miscalculate the level investment necessary to protect our systems adequately. 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, including our intellectual property, our reputation, business, results of operations and/or financial condition could be materially adversely affected.

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

We believe one of our key competitive advantages results from our collection of proprietary technologies that we have developed and acquired since our inception. If we fail to protect these intellectual property rights, competitors could sell products based on technology that we have developed that could harm our competitive position and decrease our revenues. We believe that the protection of our intellectual property rights is and will continue to be important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies. We also enter into confidentiality or license agreements with our employees, consultants and business partners, and control access to and distribution of our documentation and other proprietary information. In addition, we may not be able to recognize the full revenue stream from technologies for which an employee is the listed inventor of the intellectual property, one example of which is the original FLC intellectual property, for which our CEO, Dr. Sehat Sutardja, is listed as the sole inventor.

We have been issued a significant number of U.S. and foreign patents and have a significant number of pending U.S. and foreign patent applications. However, a patent may not be issued as a result of any applications or, if issued, claims allowed may not be sufficiently broad to protect our technology. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. Despite our efforts, unauthorized parties may attempt to copy or otherwise obtain and use our products or proprietary technology. Monitoring unauthorized use of our technology is difficult, and the steps that we have taken may not prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours, which would adversely impact our business and results of operations.

Certain of our software (as well as that of our customers) may be derived from so-called open source software that is generally made available to the public by its authors and/or other third parties. Open source software is made available under licenses that impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public, and/or license such derivative works under a particular type of license, rather than the forms of license customarily used to protect our intellectual property. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event that the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work if the license is terminated.

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

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

## **Table of Contents**

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

We are also subject to the conflict mineral rules promulgated by the SEC, which impose disclosure requirements on us regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries in our products and the procedures our manufacturer s use to prevent the sourcing of such conflict minerals. The ongoing implementation of these requirements could affect the sourcing, availability and pricing of minerals used in the manufacture of semiconductor devices, including our products. As a result, there may only be a limited pool of suppliers who provide conflict-free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices, which could adversely affect our operations and product margins. Additionally, if we are unable to sufficiently source conflict-free metals, we may face difficulties in satisfying customers who may require that the products they purchase from us are conflict-free, which may harm our sales and operating results.

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

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

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

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

We believe that effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. However, 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. Because of its inherent limitations, internal control over financial reporting will not necessarily prevent all error and all fraud. 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. In addition, we may modify the design and operating effectiveness of our internal controls, which could affect the overall effectiveness or evaluation of the control system in the future by us or our independent registered public accounting firm. Additionally, we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, as controls may become inadequate due to changes in conditions or deterioration in the degree of compliance. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to provide reliance financial reports, or to detect and prevent fraud, which would harm our business.

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

Dr. Sehat Sutardja, our Chairman and Chief Executive Officer, and Weili Dai, who serves as our President, are husband and wife. Together, these two officers held approximately 13% of our outstanding common shares as of April 1, 2015. 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.





## **Table of Contents**

Under Bermuda law, all of our officers, in exercising their powers and discharging their duties, must act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Majority shareholders do not owe fiduciary duties to minority shareholders. As a result, the minority shareholders will not have a direct claim against the majority shareholders in the event the majority shareholders take actions that damage the interests of minority shareholders. Class actions are generally not available to shareholders under the laws of Bermuda, although there is some suggestion that their use may be gaining favor. Bermuda law permits, in exceptional circumstances, the bringing of derivative actions, i.e., for a shareholder to bring an action in our name, when it would otherwise be an action that the company would bring itself. In order to bring a derivative action, a shareholder would have to show (i) fraud on the minority, that is acts which amount to an unconscionable use of majority power resulting or likely to result in loss or unfair discriminatory treatment of the minority; and (ii) that the alleged wrongdoers have control of the company. In addition, a shareholder may be able to bring a claim when the shareholder alleges that the wrong has been done to the shareholder personally in his or her capacity as shareholder. Typically, shareholders' personal claims arise from a breach or threatened breach of the bye-laws.

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

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

Our buildings in Santa Clara, California; Singapore; Etoy, Switzerland; and Shanghai, China subject us to the risks of owning real property, which include:

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

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

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

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

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

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

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

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

Additionally, the second surety bond and commitment from the sureties are secured by our campus located in Santa Clara, California. See We are currently involved in a patent litigation action involving CMU, and, if we do not prevail on appeal of the district court judgment, we could be liable for substantial damages.

*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.

## **Table of Contents**

***We are incorporated in Bermuda, and, as a result, it may not be possible for our shareholders to enforce civil liability provisions of the securities laws of the United States. In addition, our Bye-Laws contain a waiver of claims or rights of action by our shareholders against our officers and directors, which will severely limit our shareholders' right to assert a claim against our officers and directors under Bermuda law.***

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

Our Bye-Laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against any of our officers and directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties with or for us, other than with respect to any matter involving any fraud or dishonesty on the part of the officer or director or to any matter arising under U.S. federal securities laws. This waiver will limit the rights of our shareholders to assert claims against our officers and directors unless the act complained of involves fraud or dishonesty or arises as a result of a breach of U.S. federal securities laws. Therefore, so long as acts of business judgment do not involve fraud or dishonesty or arise as a result of a breach of U.S. federal securities laws, they will not be subject to shareholder claims under Bermuda law. For example, shareholders will not have claims against officers and directors for a breach of trust, unless the breach rises to the level of fraud or dishonesty, or arises as a result of a breach of U.S. federal securities laws.

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

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

authorizing the issuance of preferred stock without shareholder approval; and

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

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

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

There were no sales of unregistered securities during the three months ended May 2, 2015.

**Issuer Purchases of Equity Securities**

The following table presents details of our share repurchases during the three months ended May 2, 2015 (in thousands, except per share data):

Period (1)	Total Number of Shares Purchased	Average Price Paid per Share	Approximate Dollar Value of	
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Shares that May Yet Be Purchased Under the Plans or Programs (2)
February 1 February 28, 2015	111,880	\$ 16.13	111,880	\$ 441,652
March 1 March 28, 2015	877,950	\$ 15.93	877,950	\$ 427,668
March 29 May 2, 2015	432,132	\$ 14.54	432,132	\$ 421,385
Total	1,421,962	\$ 15.52	1,421,962	\$ 421,385

- (1) The monthly periods presented above for the three months ended May 2, 2015, are based on our fiscal accounting periods which follow a quarterly 4-4-5 week fiscal accounting period.
- (2) In August 2010, our board of directors initially authorized our current share repurchase program to repurchase up to \$500 million of our outstanding common shares. Our board of directors authorized an additional \$1.5 billion in fiscal 2012 and \$1.0 billion in fiscal 2013 and \$250 million in fiscal 2015 to be used to repurchase our outstanding common shares under the share repurchase program for a total available under the program of \$3.25 billion. We intend to effect share repurchases in accordance with the conditions of Rule 10b-18 under the Exchange Act, but may also make repurchases in the open market outside of Rule 10b-18 or in privately negotiated transactions. The share repurchase program will be subject to market conditions and other factors and does not obligate us to repurchase any dollar amount or number of our common shares and the repurchase program may be extended, modified, suspended or discontinued at any time.

**Item 6. Exhibits**

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

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARVELL TECHNOLOGY GROUP LTD.

Date: June 4, 2015

By: /s/ Sukhi Nagesh  
**Sukhi Nagesh**  
*Interim Chief Financial Officer*  
**(Principal Financial Officer)**

**Table of Contents**

**EXHIBIT INDEX**

31.1	Certification of Chief Executive Officer as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Interim 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 Interim 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

\* 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.